



*"GOOD  
NEIGHBORS"*

**CITY OF FERNDALE,  
MICHIGAN**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**For the Year Ended  
June 30, 2008**

**CITY OF FERNDALE,  
MICHIGAN**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**For the Year Ended  
June 30, 2008**

# CITY OF FERNDALE, MICHIGAN

## TABLE OF CONTENTS

---

	<u>Page</u>
<b><i>FINANCIAL SECTION</i></b>	
<b>Independent Auditors' Report</b>	1 - 2
<b>Management's Discussion and Analysis</b>	3 - 15
<b>Basic Financial Statements:</b>	
Government-Wide Financial Statements:	
Statement of Net Assets	16
Statement of Activities	17 - 18
Fund Financial Statements:	
Balance Sheet - Governmental Funds	19
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	23 - 24
Statement of Net Assets - Proprietary Funds	25
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	26
Statement of Cash Flows - Proprietary Funds	27 - 28
Statement of Fiduciary Net Assets - Fiduciary Funds	29
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	30
Combining Statement of Net Assets - Component Units	31
Combining Statement of Activities - Component Units	32
Notes to the Financial Statements	33 - 63
<b>Required Supplementary Information:</b>	
Schedule of Funding Progress - Employees Retirement Systems	64 - 67
<b>Combining and Individual Fund Financial Statements and Schedules:</b>	
Combining Balance Sheet - Nonmajor Governmental Funds	68
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	69
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Local Streets Fund	70
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Major Streets Fund	71

# CITY OF FERNDALE, MICHIGAN

## TABLE OF CONTENTS

---

	<u>Page</u>
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Sanitation Fund	72
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Drug Forfeiture Fund	73
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Community Development Block Grant Fund	74
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Library Fund	75
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Public Improvement Fund	76
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - SMART Taxi Subsidy Fund	77
Combining Statement of Net Assets - Internal Service Funds	78
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets - Internal Service Funds	79
Combining Statement of Cash Flows - Internal Service Funds	80
Combining Statement of Net Assets - Pension and Other Employee Benefit Trust Funds	81
Combining Statement of Changes in Net Assets - Pension and Other Employee Benefit Trust Funds	82
Combining Balance Sheet - Agency Funds	83
Component Unit Financial Statements:	
Statement of Net Assets and Governmental Fund Balance Sheet - Downtown Development Authority	84
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Assets - Downtown Development Authority	85
Statement of Activities and Revenues, Expenditures and Changes in Fund Balance - Downtown Development Authority	86
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities - Downtown Development Authority	87
Statement of Net Assets and Governmental Fund Balance Sheet - Brownfield Redevelopment Authority	88
Statement of Activities and Revenues, Expenditures and Changes in Fund Balance - Brownfield Redevelopment Authority	89

# CITY OF FERNDALE, MICHIGAN

## TABLE OF CONTENTS

---

### *SINGLE AUDIT*

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	90 - 91
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-13	92 - 93
Schedule of Expenditures of Federal Awards	94
Notes to the Schedule of Expenditures of Federal Awards	95
Schedule of Findings and Questioned Costs	96 - 98

\* \* \* \* \*

## INDEPENDENT AUDITORS' REPORT

February 10, 2009

To the Honorable Mayor and City Council  
City of Ferndale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Ferndale, Michigan***, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Ferndale, Michigan***, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis and other required supplementary information on pages 3 through 15 and pages 64 through 67 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual fund financial statements and schedules and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Johnson".

Troy, Michigan

***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***



## **CITY OF FERNDALE, MICHIGAN**

### **Management's Discussion and Analysis**

---

As management of the *City of Ferndale, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2008.

#### **Financial Highlights**

- The total net assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$34,142,452. Of this amount, \$19,931,293 is invested in capital assets, \$3,391,154 is restricted for debt service and other purposes, and \$10,820,005 may be used to meet the government's ongoing obligations to its citizens and creditors.
- The City's combined net assets in Primary Government activities increased \$2,569,964 as a result of this year's operations. Net assets of our Governmental activities increased by \$2,648,572 and net assets of our Business-type activities decreased by \$78,608.
- As of the close of the current fiscal year, the City's Governmental funds reported combined fund balances of \$16,603,289 for an increase of \$8,726,756 as compared with the prior year. Approximately 46% of this amount, or \$7,658,644, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, the unreserved and undesignated fund balance for the General Fund was \$4,267,490 or 25% of total General Fund expenditures.
- The City's total long-term debt increased by \$7,958,409 during the current fiscal year.
- In March 2008, the City was notified by Standard & Poor's that the City of Ferndale qualified for an A+ credit rating based on their solid financial position, an upgrade from their previous BBB+ rating.

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

## CITY OF FERNDALE, MICHIGAN

### Management's Discussion and Analysis

---

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and public grounds, community development, and operation of the Municipal Library and Kulick Community Center. The business-type activities of the City include water distribution and sanitary sewer operations and the municipal parking system.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate authorities - the Downtown Development Authority and the Brownfield Redevelopment Authority - for which the City is financially accountable. Financial information for the *component units* are reported separately from the financial information presented for the primary government itself.

**Fund financial statements.** A *Fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

## CITY OF FERNDALE, MICHIGAN

### Management's Discussion and Analysis

---

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Debt Service fund, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* after the *Notes to Financial Statements*.

The City adopts an annual appropriated budget for its general, special revenue, and debt service funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

2. **Proprietary funds** account for activities that operate similar to a business. The City maintains two different types of proprietary funds: enterprise funds and internal service funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer system and the Library Renovation fund, which are considered to be major funds of the City.
  - a) **Enterprise funds** are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for both its water distribution and sanitary sewer operations, and its municipal parking system.
  - b) **Internal service funds** are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motorized vehicle and general maintenance equipment, and for costs related to workers' compensation, unemployment, and other employment-related costs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.
3. **Fiduciary funds** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule

# CITY OF FERNDALE, MICHIGAN

## Management's Discussion and Analysis

concerning the City's progress in funding its obligation to provide pension benefits to its employees and to this Management Discussion and Analysis.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Ferndale, assets exceeded liabilities by \$34,142,452 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (58%) reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Ferndale's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 22,085,220	\$ 12,934,303	\$ 5,029,804	\$ 3,700,981	\$ 27,115,024	\$ 16,635,284
Capital assets, net	19,961,426	20,698,470	36,987,959	35,794,376	56,949,385	56,492,846
Total assets	42,046,646	33,632,773	42,017,763	39,495,357	84,064,409	73,128,130
Current liabilities	6,162,240	5,536,285	2,161,594	1,783,735	8,323,834	7,320,020
Noncurrent liabilities	26,420,207	21,280,861	15,177,916	12,954,761	41,598,123	34,235,622
Total liabilities	32,582,447	26,817,146	17,339,510	14,738,496	49,921,957	41,555,642
Net assets:						
Invested in capital assets,						
net of related debt	(1,105,341)	(2,370,099)	21,036,634	22,191,792	19,931,293	19,821,693
Restricted assets	3,391,154	2,584,052	-	-	3,391,154	2,584,052
Unrestricted	7,178,386	6,601,674	3,641,619	2,565,069	10,820,005	9,166,743
Total net assets	\$ 9,464,199	\$ 6,815,627	\$ 24,678,253	\$ 24,756,861	\$ 34,142,452	\$ 31,572,488

An additional portion of the City's net assets (10%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$10,820,005 or 32% may be used to meet the government's ongoing obligations to citizens and creditors.

# CITY OF FERNDAL, MICHIGAN

## Management's Discussion and Analysis

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net assets in Primary Government activities increased \$2,569,964 during the current fiscal year. Governmental activities account for an increase of \$2,648,572, and business-type activities account for a reduction of \$78,608 for the year ended.

### City of Ferndale's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue:						
Program revenues:						
Charges for services	\$ 5,927,014	\$ 6,237,612	\$ 7,445,343	\$ 6,953,033	\$ 13,372,357	\$ 13,190,645
Operating grants and contributions	2,171,985	1,783,160	7,474	14,948	2,179,459	1,798,108
Capital grants and contributions	57,467	186,936	-	-	57,467	186,936
General revenues:						
Property taxes	15,112,403	13,904,433	-	-	15,112,403	13,904,433
State shared revenue	3,083,675	3,083,675	-	-	3,083,675	3,083,675
Grants and contributions not restricted to specific programs	50,910	22,282	-	-	50,910	22,282
Other	1,150,920	1,095,403	97,567	53,899	1,248,487	1,149,302
Total revenues	27,554,374	26,313,501	7,550,384	7,021,880	35,104,758	33,335,381
Expenses:						
General government	4,203,087	4,017,636	-	-	4,203,087	4,017,636
Public safety	10,874,258	11,072,493	-	-	10,874,258	11,072,493
Public works	3,367,281	3,601,895	-	-	3,367,281	3,601,895
Highways and streets	3,597,963	3,319,721	-	-	3,597,963	3,319,721
Community and economic development	158,357	133,615	-	-	158,357	133,615
Recreation and culture	1,790,527	1,811,204	-	-	1,790,527	1,811,204
Interest on long-term debt	914,329	1,063,063	-	-	914,329	1,063,063
Water and sewer	-	-	7,308,569	6,875,443	7,308,569	6,875,443
Auto parking	-	-	320,423	318,372	320,423	318,372
Total expenses	24,905,802	25,019,627	7,628,992	7,193,815	32,534,794	32,213,442
Increase in net assets before transfers	2,648,572	1,293,874	(78,608)	(171,935)	2,569,964	1,121,939
Transfers						
Increase (decrease) in net assets	2,648,572	1,293,874	(78,608)	(171,935)	2,569,964	1,121,939
Net assets-beginning	6,815,627	5,521,753	24,756,861	24,928,796	31,572,488	30,450,549
Net assets-ending	\$ 9,464,199	\$ 6,815,627	\$ 24,678,253	\$ 24,756,861	\$ 34,142,452	\$ 31,572,488

## CITY OF FERNDALE, MICHIGAN

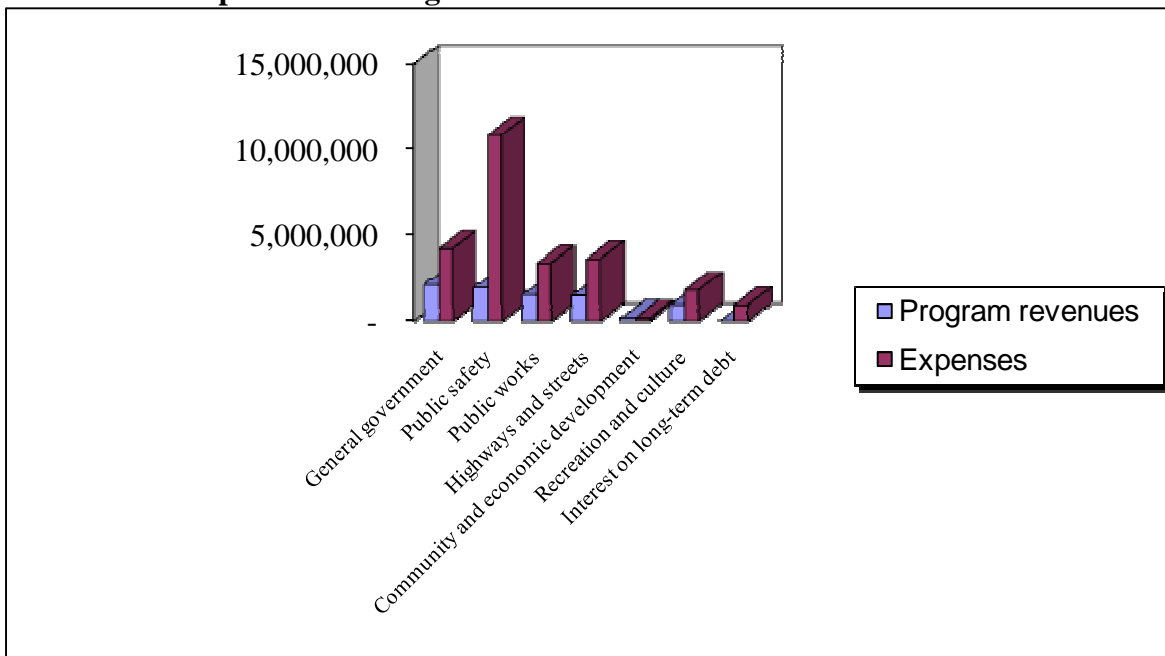
### Management's Discussion and Analysis

---

**Governmental activities** increased the City's net assets by \$2,648,572, accounting for the City's total increase in net assets. Key elements of this change are as follows:

- An increase of \$321,000 in Investment Earnings due to an increase in interest rates, a change in investment strategy, and a greater availability of funds to invest.
- An increase of \$188,000 in Property Tax revenues due to inflationary increases in valuations, new construction, and housing sales and transfers with uncap individual taxable value.
- An increase of \$183,000 in Fines and Forfeitures due to the increased collection effort by the 43<sup>rd</sup> District Court.
- A reduction of \$47,000 in State collected and locally shared sales tax revenues due to further erosion of the statutory portion of the amount distributed by the State. The reduction in State Shared Revenues from six years ago is close to \$1.3 million.

**Expenses and Program Revenues – Governmental Activities**

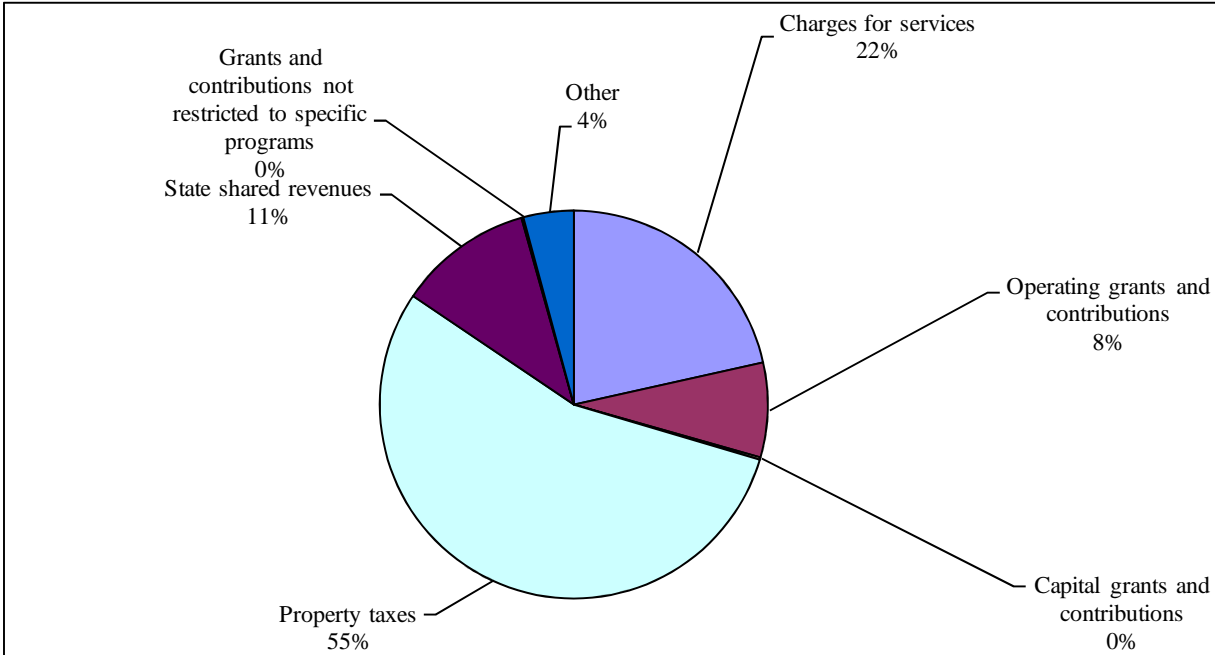


## CITY OF FERNDALE, MICHIGAN

### Management's Discussion and Analysis

---

**Revenues by Source – Governmental Activities**

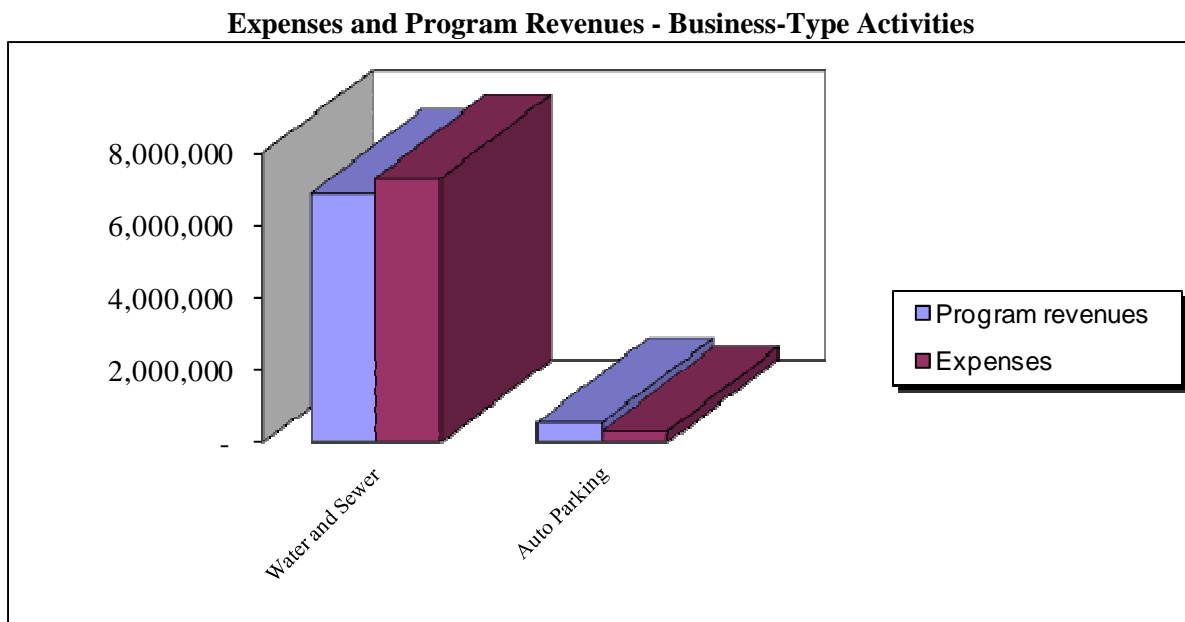


**Business-type Activities.** Business-type activities decreased the City's net assets by \$78,608, accounting for the City's total increase in net assets. The key elements of this decrease are as follows:

- A reduction of \$224,000 in net assets in the Water/Sewer Fund despite an almost 17% increase in water/sewer rates to offset increased repair and maintenance on a system exceeding 75 years old.
  - An increase of \$174,000 in the Auto Parking Fund due mainly to one factor: increased hours and enforcement of parking meters due to the hiring of a second parking enforcement officer.
-

## CITY OF FERNDALE, MICHIGAN Management's Discussion and Analysis

---



---

### Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,603,289, an increase of \$8,726,756 in comparison with the prior year. Approximately 46% of this total amount, or \$7,658,644, constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. Approximately 9% or \$1,480,087 is *unreserved, designated*. The remainder of fund balance, or \$7,464,558, is *reserved* to indicate that it is not available for new spending as it has already been committed for other purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, *unreserved and undesignated* fund balance of the general fund was \$4,267,490, while total fund balance was \$5,781,631. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 25% of total general fund expenditures, while total fund balance represents 34% of the same amount.



## **CITY OF FERNDALE, MICHIGAN**

### **Management's Discussion and Analysis**

---

The total fund balance of the City's General Fund increased by \$489,150 during the current fiscal year. Notable changes increasing the expected balance include the following:

1. Property taxes increased approximately \$358,000 from the prior year due to inflationary increases in valuations, new construction, and housing sales and transfers which uncap individual taxable values.
2. A decrease in health care costs of approximately \$900,000 from expectations – budgeted at \$3,437,000 and coming in at actual expense of \$2,526,000. The decrease to health care was mostly offset by increases to various other expenditures.

The Major Streets Fund accounts for activities, maintenance, and capital improvements of the City's 20+ miles of major streets. Unreserved and total fund balance was \$194,457 as of year-end. The fund balance was expected to decrease by \$623,687 for the year, but decreased by an additional \$39,114, or a total of \$662,801. The change is due to a \$19,000 net decrease in State shared revenues offset by a modest increase to interest earnings, and a modest \$20,000 increase in various expenditures attributable to an increase in grant revenue contributed towards streetscaping costs and increased interest earnings, offset by a greater than expected increase to expenditures.

The Sanitation Fund has a fund balance of \$654,685, an increase of \$137,977 for the year. Operational costs were less than expected in 2008, mostly due to renegotiating our refuse collections and disposal contract. The reduction in expected costs resulting from this contract was about \$63,000 of the total \$97,000 reduction in actual expenditures to budget.

The Debt Service Fund has a total fund balance of \$260,871 all of which is reserved for the payment of debt service, a decrease from last year's total fund balance of \$412,700. The decrease of \$151,829 was a planned and budgeted use of fund balance.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$2,880,848. The decrease in total net assets for the fund was \$224,192 despite a 13% increase in water/sewer rates to the system's customers.

The system's inability to keep up with its expenses is due primarily to the costs related to maintaining an aging infrastructure. The debt service costs on maintaining the system include the \$144M GWKuhn project (of which the City's portion is approximately 10%, or \$14M), the \$8M SRF-funded water main and booster station projects, and the \$3M sewer cleaning and videotaping project.

## **CITY OF FERNDAL, MICHIGAN**

### **Management's Discussion and Analysis**

---

#### **General Fund Budgetary Highlights**

The differences between the amended revenue budget and the final actuals were relatively minor, a difference of \$22,000. The net decrease in budgeted expenditures of \$1,100,000 can be briefly summarized as follows:

Health coverage costs were \$910,000 less than the expected costs of \$3.4M resulting in decreased charges back to every department. Savings were due to a combination of long-term vacancies within various departments, an unusual reduction in incurred claims when compared to BCBSM estimates and a 15-year history of claim analysis, and negotiated reductions in benefits.

#### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounted to \$56,949,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, vehicles, and roads, highways, and other infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was \$456,543 – an decrease of \$737,043, or 4%, in governmental activities; and an increase of \$1,193,586, or 3%, in business-type activities.

Major capital asset events during the current fiscal year included the following:

- Replacement of aging broadcasting and camera equipment in the Cable T.V. operation - \$25,000. The equipment will allow the City's Cable station – WFRN – to update its current broadcasting equipment which was purchased in the early 1980's, meet contemporary technological standards, and keep in line with the City-wide technological upgrade. Included in the purchase were remotely-operated cameras which allow more staff efficiency for operations both in the Council chambers and on-location.
- New heart monitor for use by the Fire Department's ambulance and paramedic staff - \$20,000.
- Remodeling and renovation of the Kulick Community Center - \$391,000. The renovation included expanding the building, stocking the exercise room with additional work-out and aerobic equipment, carpeting the main traffic areas, and resurfacing the gym floor.
- Resurfacing the parking lot at the Ferndale Activity Center, also known as the Curling Club - \$37,000.
- In cooperation with the Michigan Department of Transportation, the completion of the renovation of the 8 Mile overpass over Woodward - \$165,000.
- Reconstruction of Nine Mile Road - \$136,000 (\$72,000 of the work in cooperation with the City of Oak Park) and adjoining sidewalk and alley work - \$54,000.

## CITY OF FERNDALE, MICHIGAN

### Management's Discussion and Analysis

---

- Street milling and overlay work on Major Street system of West End, Allen, and Cambourne - \$212,000. Street milling and overlay work on Local Street system of Wordsworth - \$126,000 – and adjoining area work - \$72,000.
- Resurfacing the in-line skating rink at Harding Park - \$24,000.
- Renovations to the kitchens at both Fire Headquarters and Fire Station #2 - \$28,000.
- Additions to the Municipal Library's book collection - \$56,000. Architectural and other plans for a renovated Library complex - \$153,000.
- Sewer videotaping and lining work - \$166,000.
- Installation of a 4-vehicle parking bay along Vester at Woodward - \$27,000.
- Water and sewer work totaling \$2,694,000 including: water main along Woodward between 8 and 9 Mile - \$159,000; cured-in-place pipe and videotaping sewer lines - \$59,000; water main along Wordsworth in conjunction with the street reconstruction project - \$104,000; continued work on the George W. Kuhn Drain project, financed by the 12-Town Drains District - \$179,000; continued work on the booster station and replacement main projects funded through State Revolving Funds- \$2,193,000.
- The replacement of several pieces of Motor Pool equipment including: eight (8) patrol vehicles - \$171,000; one (1) police service vehicle - \$25,000; one (1) ambulance - \$182,000; and one (1) industrial sewer vacuum - \$325,000.

#### City of Ferndale's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 637,878	\$ 637,878	\$ 454,903	\$ 454,903	\$ 1,092,781	\$ 1,092,781
Construction in progress	318,608	-	5,654,136	3,282,566	5,972,744	3,282,566
Buildings	3,706,287	3,600,751	76,050	81,126	3,782,337	3,681,877
Equipment	1,099,752	1,116,475	32,560	57,714	1,132,312	1,174,189
Vehicles	1,188,193	786,931	31,745	40,130	1,219,938	827,061
Infrastructure	13,010,709	14,556,435	30,738,567	31,877,936	43,749,276	46,434,371
Total	<u>\$ 19,961,427</u>	<u>\$ 20,698,470</u>	<u>\$ 36,987,961</u>	<u>\$ 35,794,375</u>	<u>\$ 56,949,388</u>	<u>\$56,492,845</u>

## CITY OF FERNDALE, MICHIGAN

### Management's Discussion and Analysis

Additional information regarding the City's capital assets can be found in the notes to the financial statements.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$44,448,596, backed by the full faith and credit of the government. Its purpose is attributable to both governmental (\$28,497,271) and business-type activities (\$15,951,325 ) at year end.

#### City of Ferndale's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Series III and IV GO bonds	\$ -	\$ 800,000	\$ -	\$ -	\$ -	\$ 800,000
2004 refunding bonds	11,145,000	12,265,000	-	-	11,145,000	12,265,000
Premium on refunding	259,524	277,145	-	-	259,524	277,145
2005 refunding bonds	9,100,000	9,145,000	-	-	9,100,000	9,145,000
Discount on 2005 refunding bonds	(223,860)	(167,728)	-	-	(223,860)	(167,728)
Public improvement bonds	654,152	749,152	-	-	654,152	749,152
Infrastructure bonds, Series 2007	3,000,000	-	-	-	3,000,000	-
Library Facilities Bond	4,700,000	-	-	-	4,700,000	-
Discount on Library Bond	(137,545)	-	-	-	(137,545)	-
State revolving fund	-	-	5,805,000	3,103,426	5,805,000	3,103,426
GW Kuhn drain project	-	-	10,146,325	10,499,158	10,146,325	10,499,158
	<u>\$ 28,497,271</u>	<u>\$23,068,569</u>	<u>\$ 15,951,325</u>	<u>\$ 13,602,584</u>	<u>\$ 44,448,596</u>	<u>\$ 36,671,153</u>

Total obligation debt increased by \$10,721,000 due to the issuance of new debt and decreased by \$2,732,000 due to payments on principal by the City. Minor other changes were due to discounts or premiums on debt and their related amortization during the year.

Additional information regarding the City's long-term debt can be found in the notes to the financial statements.

#### Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2007-08 fiscal year and will continue to be an ongoing concern as the City moves forward in future budget years.

- The general economic climate in Michigan – particularly metro Detroit – as the automotive companies struggle to hold on to market share against foreign competitors. The negative impact of this environment is seen in the decline in the housing sales and housing values, and the struggle the State has in keeping its fiscal commitments to the City as its own situation gets more precarious.

## **CITY OF FERNDALE, MICHIGAN**

### **Management's Discussion and Analysis**

---

- The combined impact of Headlee and Prop A – which has cut **in half** Ferndale's ability to collect tax revenues based on the City's authorized millage and the fair market value of its real and personal property.
- The continued concern over "Legacy" costs – retiree health care costs in times of double-digit medical inflation. Ferndale's estimated unfunded liability for retiree health care costs as estimated in 2002 were about \$32M, for which approximately \$5.4M has been set aside to defray those costs. A revised actuarial valuation is planned for the winter of 2008 based on the 2008 costs which is expected to reflect an increase of \$8M to \$12M in unfunded accrued liabilities.
- The one happy note this year was the notification by Standard and Poor's that the City's credit rating was being upgraded three steps – from a BBB+ to an A+. The notable reasons given by S&P for the change were the City's proximity and access to employment opportunities in the greater Detroit area, its moderate wealth and income levels, its solid financial position, and its high debt offset by rapid amortization of direct debt. Management credits the City's solid financial position to the City Council's steadfast commitment to adopting a balanced annual budget based on realistic revenue projections and controlled expenditure increases.

#### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 300 East Nine Mile Road, Ferndale, Michigan 48220.

***BASIC FINANCIAL  
STATEMENTS***

# CITY OF FERNDALE, MICHIGAN

## STATEMENT OF NET ASSETS

**June 30, 2008**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 10,716,710	\$ 1,825,438	\$ 12,542,148	\$ 274,647
Investments	9,200,599	-	9,200,599	-
Receivables (net)	2,310,770	2,848,428	5,159,198	9,780
Internal balances	(341,868)	341,857	(11)	-
Due from primary government	-	-	-	4,646
Inventory	199,009	14,081	213,090	-
Non-depreciable capital assets	956,486	6,109,039	7,065,525	-
Depreciable capital assets, net	19,004,940	30,878,920	49,883,860	556,251
<b>Total assets</b>	<b>42,046,646</b>	<b>42,017,763</b>	<b>84,064,409</b>	<b>845,324</b>
<b>LIABILITIES</b>				
Accounts payable	2,200,979	920,793	3,121,772	230,731
Due to component unit	4,646	-	4,646	-
Accrued liabilities	1,384,670	467,392	1,852,062	2,702
Unearned revenue	29,163	-	29,163	-
Noncurrent liabilities				
Due within one year	2,542,782	773,409	3,316,191	-
Due in more than one year	26,420,207	15,177,916	41,598,123	-
<b>Total liabilities</b>	<b>32,582,447</b>	<b>17,339,510</b>	<b>49,921,957</b>	<b>233,433</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	(1,105,341)	21,036,634	19,931,293	556,251
Restricted for				
Public safety	177,301	-	177,301	-
Highways and streets	274,484	-	274,484	-
Public works	2,183,077	-	2,183,077	-
Community and economic development	135,294	-	135,294	-
Recreation and culture	360,127	-	360,127	-
Debt service	260,871	-	260,871	-
Unrestricted	7,178,386	3,641,619	10,820,005	55,640
<b>Total net assets</b>	<b>\$ 9,464,199</b>	<b>\$ 24,678,253</b>	<b>\$ 34,142,452</b>	<b>\$ 611,891</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary government</b>					
<b>Governmental activities</b>					
General government	\$ 4,203,087	\$ 2,041,072	\$ 70,337	\$ -	\$ (2,091,678)
Public safety	10,874,258	1,748,753	180,801	-	(8,944,704)
Public works	3,367,281	1,522,402	750	-	(1,844,129)
Highways and streets	3,597,963	144,927	1,279,480	57,467	(2,116,089)
Community and economic development	158,357	14,880	160,302	-	16,825
Recreation and culture	1,790,527	454,980	480,315	-	(855,232)
Interest on long-term debt	914,329	-	-	-	(914,329)
<b>Total governmental activities</b>	<b>24,905,802</b>	<b>5,927,014</b>	<b>2,171,985</b>	<b>57,467</b>	<b>(16,749,336)</b>
<b>Business-type activities</b>					
Water and sewer	7,308,569	6,879,126	7,474	-	(421,969)
Auto parking	320,423	566,217	-	-	245,794
<b>Total business-type activities</b>	<b>7,628,992</b>	<b>7,445,343</b>	<b>7,474</b>	<b>-</b>	<b>(176,175)</b>
<b>Total primary government</b>	<b>\$ 32,534,794</b>	<b>\$ 13,372,357</b>	<b>\$ 2,179,459</b>	<b>\$ 57,467</b>	<b>\$ (16,925,511)</b>
<b>Component units</b>					
Downtown Development Authority	\$ 568,360	\$ -	\$ 40,764	\$ -	\$ (527,596)
Brownfield Redevelopment Authority	200,539	2,515	-	-	(198,024)
<b>Total component units</b>	<b>\$ 768,899</b>	<b>\$ 2,515</b>	<b>\$ 40,764</b>	<b>\$ -</b>	<b>\$ (725,620)</b>

The accompanying notes are an integral part of these financial statements.



# CITY OF FERNDALE, MICHIGAN

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets</b>				
Net expense	\$ (16,749,336)	\$ (176,175)	\$ (16,925,511)	\$ (725,620)
General revenues				
Property taxes	15,112,403	-	15,112,403	651,905
State shared revenue	3,083,675	-	3,083,675	-
Grants and contributions not restricted to specific programs	50,910	-	50,910	-
Unrestricted investment (loss) earnings	885,193	53,427	938,620	3,418
Gain on sale of capital assets	184,867	125,000	309,867	1,852
Transfers - internal activities	80,860	(80,860)	-	-
<b>Total general revenues and transfers</b>	<b>19,397,908</b>	<b>97,567</b>	<b>19,495,475</b>	<b>657,175</b>
<b>Change in net assets</b>	<b>2,648,572</b>	<b>(78,608)</b>	<b>2,569,964</b>	<b>(68,445)</b>
Net assets, beginning of year	6,815,627	24,756,861	31,572,488	680,336
<b>Net assets, end of year</b>	<b>\$ 9,464,199</b>	<b>\$ 24,678,253</b>	<b>\$ 34,142,452</b>	<b>\$ 611,891</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## BALANCE SHEET

### Governmental Funds

**June 30, 2008**

ASSETS	General	Capital Project	Debt Service	Other Governmental Funds	Total Governmental Funds
		Library Renovation			
Cash and cash equivalents	\$ -	\$4,884,128	\$ 261,538	\$ 3,820,093	\$ 8,965,759
Investments	9,200,599	-	-	-	9,200,599
Inventory	3,124	-	-	-	3,124
Receivables					
Accounts receivable	364,681	-	-	-	364,681
Taxes-delinquent	134,402	-	49,200	26,782	210,384
Less: allowance for doubtful accounts	(103,310)	-	(39,543)	(20,104)	(162,957)
Interest and dividends	77,150	-	-	-	77,150
Due from other funds	21,322	-	-	2,013,858	2,035,180
Due from other governments	1,416,533	-	-	380,051	1,796,584
Prepaid expenditures	7,889	-	-	-	7,889
<b>Total assets</b>	<b>\$ 11,122,390</b>	<b>\$4,884,128</b>	<b>\$ 271,195</b>	<b>\$ 6,220,680</b>	<b>\$ 22,498,393</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 1,576,350	\$ 20,747	\$ 667	\$ 449,124	\$ 2,046,888
Accrued liabilities	989,947	-	-	46,150	1,036,097
Due to other funds	2,013,858	-	-	21,322	2,035,180
Deferred revenue	760,604	-	9,657	6,678	776,939
<b>Total liabilities</b>	<b>5,340,759</b>	<b>20,747</b>	<b>10,324</b>	<b>523,274</b>	<b>5,895,104</b>
<b>Fund balances</b>					
Reserved for					
Capital projects	-	4,863,381	-	2,567,123	7,430,504
Inventory	3,124	-	-	-	3,124
Prepays	7,889	-	-	-	7,889
Other purposes	23,041	-	-	-	23,041
Unreserved, designated	1,480,087	-	-	-	1,480,087
Unreserved, undesignated for					
General fund	4,267,490	-	-	-	4,267,490
Special revenue funds	-	-	-	3,130,283	3,130,283
Debt service	-	-	260,871	-	260,871
<b>Total fund balances</b>	<b>5,781,631</b>	<b>4,863,381</b>	<b>260,871</b>	<b>5,697,406</b>	<b>16,603,289</b>
<b>Total liabilities and fund balances</b>	<b>\$ 11,122,390</b>	<b>\$4,884,128</b>	<b>\$ 271,195</b>	<b>\$ 6,220,680</b>	<b>\$ 22,498,393</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

June 30, 2008

---

Fund balances - total governmental funds	\$ 16,603,289
--	---------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	51,058,945
Deduct: accumulated depreciation	(32,660,725)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues	747,776
------------------------	---------

Internal service funds are used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service funds	3,367,598
Deduct: amount due to business-type activities	(341,857)
Deduct: amount due to component units	(4,647)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(28,497,271)
Deduct: compensated absences	(465,718)
Deduct: accrued interest on bonds payable	(343,191)

<b>Net assets of governmental activities</b>	<b><u><u>\$ 9,464,199</u></u></b>
--	-----------------------------------

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

**Year Ended June 30, 2008**

	<b>General</b>	<b>Capital Project Library Renovation</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>					
Property taxes	\$ 9,735,740	\$ -	\$ 2,814,319	\$ 2,572,292	\$ 15,122,351
Licenses and permits	396,505	-	-	-	396,505
Intergovernmental	4,444,952	-	-	1,693,026	6,137,978
Charges for services	1,275,675	-	-	1,035,805	2,311,480
Fines and forfeitures	1,638,235	-	-	64,270	1,702,505
Investment earnings	692,107	20,946	13,842	102,171	829,066
Other	581,487	-	-	86,157	667,644
<b>Total revenues</b>	<b>18,764,701</b>	<b>20,946</b>	<b>2,828,161</b>	<b>5,553,721</b>	<b>27,167,529</b>
<b>Expenditures</b>					
Current					
General government	2,958,813	-	-	76,486	3,035,299
Public safety	10,636,376	-	-	24,298	10,660,674
Public works	903,794	-	-	2,243,883	3,147,677
Highways and streets	-	-	-	2,119,687	2,119,687
Community and economic development	-	-	-	83,341	83,341
Recreation and culture	899,503	-	-	677,005	1,576,508
Other functions	1,115,829	-	20,940	-	1,136,769
Debt service					
Principal	-	-	1,965,000	95,000	2,060,000
Interest and fees	-	-	994,050	33,712	1,027,762
Capital outlay	520,202	152,727	-	420,161	1,093,090
<b>Total expenditures</b>	<b>17,034,517</b>	<b>152,727</b>	<b>2,979,990</b>	<b>5,773,573</b>	<b>25,940,807</b>
<b>Revenues over (under) expenditures</b>	<b>1,730,184</b>	<b>(131,781)</b>	<b>(151,829)</b>	<b>(219,852)</b>	<b>1,226,722</b>
<b>Other financing sources (uses)</b>					
Transfers in	270,351	313,156	-	2,007,514	2,591,021
Transfers out	(1,557,514)	-	-	(1,277,272)	(2,834,786)
Proceeds from bond issuance	-	4,700,000	-	3,000,000	7,700,000
Discount on bond issuance	-	(17,994)	-	14,819	(3,175)
Proceeds from sale of capital assets	46,129	-	-	845	46,974
<b>Total other financing sources (uses)</b>	<b>(1,241,034)</b>	<b>4,995,162</b>	<b>-</b>	<b>3,745,906</b>	<b>7,500,034</b>
<b>Net change in fund balances</b>	<b>489,150</b>	<b>4,863,381</b>	<b>(151,829)</b>	<b>3,526,054</b>	<b>8,726,756</b>
Fund balances, beginning of year	5,292,481	-	412,700	2,171,352	7,876,533
<b>Fund balances, end of year</b>	<b>\$ 5,781,631</b>	<b>\$4,863,381</b>	<b>\$ 260,871</b>	<b>\$ 5,697,406</b>	<b>\$ 16,603,289</b>

The accompanying notes are an integral part of these financial statements.

## CITY OF FERNDALE, MICHIGAN

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

---

Net change in fund balances - total governmental funds	\$ 8,726,756
--	--------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	1,755,457
Deduct: depreciation expense	(2,869,535)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: net difference in deferred revenue	(9,948)
--	---------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities and on refunding bonds	2,060,000
Add: net change in amortization of bond premiums and accrued interest	116,608
Deduct: proceeds from bond issuance	(7,700,000)

Internal service funds are used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue attributable to those funds is reported with governmental activities.

Add: net income from governmental activities in the internal service funds	576,360
--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: increase in deferred revenue from state shared revenues	74,938
Deduct: increase in the accrual for compensated absences	(82,064)

<b>Change in net assets of governmental activities</b>	<b><u>\$ 2,648,572</u></b>
--	----------------------------

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDAL, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**

**GENERAL FUND**

**Year Ended June 30, 2008**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Revenues</b>				
Property taxes	\$ 9,491,500	\$ 9,715,100	\$ 9,735,740	\$ 20,640
Licenses and permits	432,100	412,100	396,505	(15,595)
Intergovernmental				
Federal grants	419,100	419,100	416,964	(2,136)
State grants	72,324	78,324	82,465	4,141
State shared revenue	3,200,000	3,046,100	3,008,736	(37,364)
Local reimbursements	933,173	933,173	936,787	3,614
Charges for services	1,311,442	1,270,851	1,275,675	4,824
Fines and forfeitures	1,462,000	1,748,500	1,638,235	(110,265)
Investment earnings	350,000	600,000	692,107	92,107
Other	444,373	519,651	581,487	61,836
<b>Total revenues</b>	<b>18,116,012</b>	<b>18,742,899</b>	<b>18,764,701</b>	<b>21,802</b>
<b>Expenditures</b>				
General government				
Council	40,085	78,806	74,221	(4,585)
District court	1,252,430	1,282,330	1,215,730	(66,600)
Manager	314,212	314,814	307,807	(7,007)
Finance	301,583	306,763	288,155	(18,608)
Clerk	276,912	292,612	273,795	(18,817)
Assessor/Treasurer	358,347	358,347	363,068	4,721
Elections	76,860	74,530	49,473	(25,057)
Attorney	355,000	320,000	307,055	(12,945)
Cable television	96,187	112,490	79,509	(32,981)
<b>Total general government</b>	<b>3,071,616</b>	<b>3,140,692</b>	<b>2,958,813</b>	<b>(181,879)</b>
Public safety				
Police	6,447,623	6,670,822	6,089,443	(581,379)
Fire	3,857,967	3,873,567	3,736,998	(136,569)
Inspection	726,081	736,407	718,805	(17,602)
Animal control and shelter	101,656	101,656	91,130	(10,526)
<b>Total public safety</b>	<b>\$ 11,133,327</b>	<b>\$ 11,382,452</b>	<b>\$ 10,636,376</b>	<b>\$ (746,076)</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDAL, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**

**GENERAL FUND**

**Year Ended June 30, 2008**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
Public works				
Department of public works	\$ 613,788	\$ 592,802	\$ 600,417	\$ 7,615
Refuse and weed control	25,310	29,310	27,208	(2,102)
Sidewalk program	398,200	284,809	276,169	(8,640)
<b>Total public works</b>	<b>1,037,298</b>	<b>906,921</b>	<b>903,794</b>	<b>(3,127)</b>
Recreation and culture				
Recreation department	191,996	191,996	169,614	(22,382)
Dream cruise car show	97,500	100,500	94,198	(6,302)
Kulick Community Center	1,051,384	1,041,601	584,215	(457,386)
Martin Road Youth Center	52,343	52,343	51,476	(867)
<b>Total recreation and culture</b>	<b>1,393,223</b>	<b>1,386,440</b>	<b>899,503</b>	<b>(486,937)</b>
Other functions				
Liability insurance	630,000	540,000	532,116	(7,884)
Utilities	499,763	505,000	481,253	(23,747)
Other	358,200	156,560	102,460	(54,100)
<b>Total other functions</b>	<b>1,487,963</b>	<b>1,201,560</b>	<b>1,115,829</b>	<b>(85,731)</b>
Capital outlay	113,000	100,000	520,202	420,202
<b>Total expenditures</b>	<b>18,236,427</b>	<b>18,118,065</b>	<b>17,034,517</b>	<b>(1,083,548)</b>
<b>Revenues over (under) expenditures</b>	<b>(120,415)</b>	<b>624,834</b>	<b>1,730,184</b>	<b>1,105,350</b>
<b>Other financing sources (uses)</b>				
Transfers in	265,415	267,490	270,351	2,861
Transfers out	(190,000)	(1,572,094)	(1,557,514)	14,580
Proceeds from sale of capital assets	45,000	45,000	46,129	1,129
<b>Total other financing (uses)</b>	<b>120,415</b>	<b>(1,259,604)</b>	<b>(1,241,034)</b>	<b>18,570</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>(634,770)</b>	<b>489,150</b>	<b>1,123,920</b>
Fund balance, beginning of year	5,292,481	5,292,481	5,292,481	-
<b>Fund balance, end of year</b>	<b>\$ 5,292,481</b>	<b>\$ 4,657,711</b>	<b>\$ 5,781,631</b>	<b>\$ 1,123,920</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## STATEMENT OF NET ASSETS

### PROPRIETARY FUNDS

June 30, 2008

	<b>Business-Type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Major Fund</b>	<b>Non Major Fund</b>		
	<b>Water/ Sewer</b>	<b>Auto Parking</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 1,402,065	\$ 423,373	\$ 1,825,438	\$ 1,750,951
Accounts receivable	2,846,348	2,080	2,848,428	24,928
Inventories	14,081	-	14,081	167,996
Prepaid expenses	-	-	-	20,000
<b>Total current assets</b>	<b>4,262,494</b>	<b>425,453</b>	<b>4,687,947</b>	<b>1,963,875</b>
Noncurrent assets				
Capital assets	51,641,163	1,456,752	53,097,915	5,500,130
Less accumulated depreciation	(15,738,571)	(371,385)	(16,109,956)	(3,936,924)
<b>Total noncurrent assets</b>	<b>35,902,592</b>	<b>1,085,367</b>	<b>36,987,959</b>	<b>1,563,206</b>
<b>Total assets</b>	<b>40,165,086</b>	<b>1,510,820</b>	<b>41,675,906</b>	<b>3,527,081</b>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	918,298	2,495	920,793	154,101
Accrued liabilities	462,498	4,044	466,542	5,382
Customer deposits	850	-	850	-
Current portion of long-term debt	773,409	-	773,409	-
<b>Total current liabilities</b>	<b>2,155,055</b>	<b>6,539</b>	<b>2,161,594</b>	<b>159,483</b>
Noncurrent liabilities				
Long-term debt	15,177,916	-	15,177,916	-
<b>Total liabilities</b>	<b>17,332,971</b>	<b>6,539</b>	<b>17,339,510</b>	<b>159,483</b>
<b>Net assets</b>				
Investment in capital assets, net of designated related debt	19,951,267	1,085,367	21,036,634	1,563,206
Unrestricted	2,880,848	418,914	3,299,762	1,804,392
<b>Total net assets</b>	<b>\$ 22,832,115</b>	<b>\$ 1,504,281</b>	<b>24,336,396</b>	<b>\$ 3,367,598</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			341,857	
<b>Net assets of business-type activities</b>			<b>\$ 24,678,253</b>	

The accompanying notes are an integral part of these financial statements.



# CITY OF FERNDALE, MICHIGAN

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

### PROPRIETARY FUNDS

Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities
	Major Fund	Fund		
	Water/ Sewer	Auto Parking	Total	Internal Service Funds
<b>Operating revenues</b>				
Charges for services	\$ 6,151,881	\$ -	\$ 6,151,881	\$ 1,455,278
Parking meter receipts	-	539,065	539,065	-
Water penalties	281,715	-	281,715	-
Water meter repairs	260,063	-	260,063	-
Miscellaneous income	185,467	27,152	212,619	26,662
<b>Total operating revenues</b>	<b>6,879,126</b>	<b>566,217</b>	<b>7,445,343</b>	<b>1,481,940</b>
<b>Operating expenses</b>				
Personal services	1,089,205	120,565	1,209,770	188,103
General and administrative	127,813	32,923	160,736	738,139
Utilities	43,076	19,986	63,062	-
Rental expense	175,783	66,515	242,298	-
Contractual services	87,141	5,706	92,847	-
Water and sewer expense	3,479,126	-	3,479,126	-
Maintenance expense	326,995	6,914	333,909	-
Depreciation	1,599,303	72,655	1,671,958	389,368
Medical and benefit payments	-	-	-	113,544
<b>Total operating expenses</b>	<b>6,928,442</b>	<b>325,264</b>	<b>7,253,706</b>	<b>1,429,154</b>
<b>Operating (loss) income</b>	<b>(49,316)</b>	<b>240,953</b>	<b>191,637</b>	<b>52,786</b>
<b>Non-operating revenues (expenses)</b>				
Interest income	39,313	14,114	53,427	56,127
Interest expense	(346,663)	-	(346,663)	-
Gain on sale of capital assets	125,000	-	125,000	137,893
<b>Total non-operating revenues (expenses)</b>	<b>(182,350)</b>	<b>14,114</b>	<b>(168,236)</b>	<b>194,020</b>
<b>Income before contributions and transfers</b>	<b>(231,666)</b>	<b>255,067</b>	<b>23,401</b>	<b>246,806</b>
Capital contributions	7,474	-	7,474	-
Transfer in	-	-	-	324,625
Transfer out	-	(80,860)	(80,860)	-
<b>Change in net assets</b>	<b>(224,192)</b>	<b>174,207</b>	<b>(49,985)</b>	<b>571,431</b>
Net assets, beginning of year	23,056,307	1,330,074		2,796,167
<b>Net assets, end of year</b>	<b>\$ 22,832,115</b>	<b>\$ 1,504,281</b>		<b>\$ 3,367,598</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(28,623)	
<b>Change in net assets of business type activities</b>			<b>\$ (78,608)</b>	

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS

Year Ended June 30, 2008

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Major Fund	Fund		
	Water/ Sewer	Auto Parking	Total	Internal Service Funds
<b>Cash flows from operating activities</b>				
Cash received from customers and others	\$ 6,616,196	\$ 574,862	\$ 7,191,058	\$ -
Cash received from interfund services	-	-	-	1,485,621
Cash payments to employees	(790,561)	(120,300)	(910,861)	(187,539)
Cash payments to suppliers for goods and services	(4,151,408)	(106,470)	(4,257,878)	(782,787)
Cash payments for interfund services	(127,813)	(32,923)	(160,736)	-
<b>Net cash provided by operating activities</b>	<b>1,546,414</b>	<b>315,169</b>	<b>1,861,583</b>	<b>515,295</b>
<b>Cash flows provided by investing activities</b>				
Investment income	39,313	14,114	53,427	56,126
<b>Cash flows from capital and related financing activities</b>				
Purchase of capital assets	(2,693,639)	(171,902)	(2,865,541)	(766,402)
Bond/note interest payments	(346,663)	-	(346,663)	-
Proceeds from sale of capital assets	125,000	-	125,000	137,894
Proceeds from debt issuance	3,020,594	-	3,020,594	-
Repayments against long-term debt	(671,853)	-	(671,853)	-
Capital contribution	7,474	-	7,474	-
<b>Net cash used in capital and related financing activities</b>	<b>(559,087)</b>	<b>(171,902)</b>	<b>(730,989)</b>	<b>(628,508)</b>
<b>Cash flows from non-capital financing activities</b>				
Transfers	-	(80,860)	(80,860)	324,625
<b>Net increase in cash and cash equivalents</b>	<b>1,026,640</b>	<b>76,521</b>	<b>1,103,161</b>	<b>267,538</b>
Cash and cash equivalents, beginning of year	375,425	346,852	722,277	1,483,413
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,402,065</b>	<b>\$ 423,373</b>	<b>\$ 1,825,438</b>	<b>\$ 1,750,951</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS

Year Ended June 30, 2008

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Major Fund</b>	<b>Non-Major Fund</b>		
	<b>Water/ Sewer</b>	<b>Auto Parking</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>Reconciliation of operating (loss) income to net cash provided by operating activities</b>				
Operating (loss) income	\$ (49,316)	\$ 240,953	\$ 191,637	\$ 52,786
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	1,599,303	72,655	1,671,958	389,368
Changes in assets and liabilities				
Accounts receivable - customers	(265,427)	8,645	(256,782)	3,681
Due from other governments	-	-	-	-
Due from other funds	-	-	-	-
Inventories	2,497	-	2,497	7,710
Prepaid items	-	-	-	-
Long term receivable	-	-	-	-
Accounts payable	(38,756)	(7,349)	(46,105)	61,186
Accrued liabilities	298,644	265	298,909	564
Due to other funds	-	-	-	-
Deposits payable	(531)	-	(531)	-
<b>Net cash provided by operating activities</b>	<b>\$ 1,546,414</b>	<b>\$ 315,169</b>	<b>\$ 1,861,583</b>	<b>\$ 515,295</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**

**STATEMENT OF FIDUCIARY NET ASSETS**

**June 30, 2008**

	<b>Pension and Other Employee Benefit Trusts</b>	<b>Agency</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,483,267	\$ 227,363
Accrued interest receivable	256,336	-
Accounts receivable	-	10,615
Prepays	-	-
Investments		
U.S. Government obligations	-	-
Mutual funds	12,996,569	-
Common stock	24,710,226	-
Real estate investment trust (REIT)	3,023,305	-
Corporate bonds	21,245,270	-
	<u>61,975,370</u>	<u>-</u>
Total investments		
	<u>61,975,370</u>	<u>-</u>
<b>Total assets</b>	<b><u>63,714,973</u></b>	<b><u>\$ 237,978</u></b>
<b>Liabilities</b>		
Liabilities		
Accounts payable	-	\$ 3,799
Due to other funds		
Other liabilities	-	234,179
	<u>-</u>	<u>234,179</u>
<b>Total liabilities</b>	<b><u>-</u></b>	<b><u>\$ 237,978</u></b>
<b>Net assets</b>		
Held in trust for pension benefits and other purposes	<u>\$ 63,714,973</u>	

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**

**Year Ended June 30, 2008**

	<b>Pension and Other Employee Benefit Trusts</b>
<b>Additions</b>	
Contributions	
Employer contributions	\$ 767,727
Plan member contributions	148,023
<b>Total contributions</b>	<b>915,750</b>
Investment income (loss)	
Net depreciation in fair value	(4,797,840)
Interest	1,400,288
Dividends	1,364,272
<b>Total investment loss</b>	<b>(2,033,280)</b>
Less investment expense	(293,243)
<b>Net investment loss</b>	<b>(2,326,523)</b>
<b>Total additions (net of investment loss)</b>	<b>(1,410,773)</b>
<b>Deductions</b>	
Benefits	3,376,389
Administrative expenses	10,612
<b>Total deductions</b>	<b>3,387,001</b>
<b>Net decrease in plan net assets</b>	<b>(4,797,774)</b>
Net assets held in trust for pension benefits - beginning of year	68,512,747
<b>Net assets held in trust for pension benefits and other purposes - end of year</b>	<b>\$ 63,714,973</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS

June 30, 2008

	<b>Downtown Development Authority</b>	<b>Brownfield Redevelopment Authority</b>	<b>Total</b>
<b>Assets</b>			
Cash	\$ 23,881	\$ 250,766	\$ 274,647
Receivables, net	5,748	4,032	9,780
Due from primary government	4,646	-	4,646
Capital assets			
Depreciable, net	556,251	-	556,251
<b>Total assets</b>	<b>590,526</b>	<b>254,798</b>	<b>845,324</b>
<b>Liabilities</b>			
Accounts payable	11,633	219,098	230,731
Accrued liabilities	2,702	-	2,702
<b>Total liabilities</b>	<b>14,335</b>	<b>219,098</b>	<b>233,433</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	556,251	-	556,251
Unrestricted	19,940	35,700	55,640
<b>Total net assets</b>	<b>\$ 576,191</b>	<b>\$ 35,700</b>	<b>\$ 611,891</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## COMBINING STATEMENT OF ACTIVITIES - COMPONENT UNITS

Year Ended June 30, 2008

	<b><u>Downtown Development Authority</u></b>	<b><u>Brownfield Redevelopment Authority</u></b>	<b><u>Total</u></b>
<b>Expenses</b>			
Community and economic development	\$ 568,360	\$ 200,539	\$ 768,899
<b>Program revenues</b>			
Charges for services	-	2,515	2,515
Operating grants and contributions	40,764	-	40,764
<b>Total program revenues</b>	<b><u>40,764</u></b>	<b><u>2,515</u></b>	<b><u>43,279</u></b>
<b>Net program expense</b>	<b><u>527,596</u></b>	<b><u>198,024</u></b>	<b><u>725,620</u></b>
<b>General revenues</b>			
Property taxes	442,102	209,803	651,905
Unrestricted investment earnings	-	3,418	3,418
Gains from sale of capital assets	1,852	-	1,852
<b>Total general revenues</b>	<b><u>443,954</u></b>	<b><u>213,221</u></b>	<b><u>657,175</u></b>
<b>Change in net assets</b>	<b><u>(83,642)</u></b>	<b><u>15,197</u></b>	<b><u>(68,445)</u></b>
Net assets, beginning of year	659,833	20,503	680,336
<b>Net assets, end of year</b>	<b><u>\$ 576,191</u></b>	<b><u>\$ 35,700</u></b>	<b><u>\$ 611,891</u></b>

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The accompanying financial statements present the activities of the City of Ferndale, Michigan (the “City” or “government”) and its component units, which are legally separate organizations for which the City is financially accountable. The component units each have a June 30 year-end.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements Available</u>
Downtown Development Authority (DDA); corrects and prevents deterioration in the downtown City, encourages historical preservation and promotes economic growth within the City	City Council appoints and may remove DDA board and approves DDA budget	Not prepared
Brownfield Redevelopment Authority; provide assistance for the redevelopment of abandoned, idled, or under-utilized industrial or commercial properties which are complicated by real or perceived environmental contamination	City Council appoints the governing body and approves the budget.	Not prepared

#### B. Basis of Presentation

*Government-Wide Financial Statements.* The statements of net assets and activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City’s *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular



# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements.* The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental, proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

*General fund.* This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Library Renovation.* This fund accounts for the use of bond proceeds received on the general obligation debt issuance for the renovation of the City Library.

*Debt service fund.* This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major enterprise fund:

*Water and sewer fund.* This fund accounts for the activities of the City's water distribution, water treatment, sewage disposal and sewage treatment systems.

Additionally, the City reports the following fund types:

*Special revenue funds.* These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

*Capital Project funds.* These funds account for revenue sources and uses related to major capital project initiatives by the City.

*Enterprise funds.* These funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

*Internal service funds.* These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes vehicles and equipment maintenance and workers' compensation self-insurance.

*Pension trust funds.* These funds account for the activities of the Employees Retirement System as well as the Policemen and Firemen Retirement System, which accumulates resources for retirement benefits and post-retirement health care payments to qualified employees.

*Agency funds.* These funds account for assets held for other governments in an agency capacity.

### **C. Measurement Focus/Basis of Accounting**

*Government-Wide, Proprietary and Fiduciary Fund Financial Statements.* The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds and internal services funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

# **CITY OF FERNDALE, MICHIGAN**

## **NOTES TO FINANCIAL STATEMENTS**

---

The City considers all revenues reported in the governmental funds to be available if they are collected within 60 days after year end. Property taxes, franchise taxes, intergovernmental revenues, licenses, and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Both the government-wide and proprietary fund financial statements of the City follow private-sector standards of accounting and financial reported issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### **D. Assets, Liabilities and Equity**

#### **Deposits and Investments**

The City maintains an investment pool for all City funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "cash and cash equivalents". The cash resources of the Employees Retirement System as well as the Policemen and Firemen Retirement System are invested separately.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on pension trust fund investments due to changes in fair value is recognized each year.

### **Receivables and Payables**

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

All outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

### **Inventories, Prepaid Items and Other Assets**

All inventories are valued at cost using the first-in/first-out method. Generally, inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

# **CITY OF FERNDALE, MICHIGAN**

## **NOTES TO FINANCIAL STATEMENTS**

---

### **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

In the case of the initial capitalization of general infrastructure assets (i.e. those reported by the governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e. estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Actual historical cost was used as available. As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest was incurred during the current fiscal year.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	5 - 25
Buildings and building improvements	5 - 25
Public domain infrastructure	15 - 25
Water and wastewater system infrastructure	10 - 40
Vehicles	2 - 10
Office equipment	5 - 10
Machinery and equipment	5 - 10

### Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused sick and compensatory time benefits, subject to certain limitations. All sick time pay is accrued at 50 percent of earned amounts and all unused leave hours are accrued in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

# **CITY OF FERNDALE, MICHIGAN**

## **NOTES TO FINANCIAL STATEMENTS**

---

### **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

## **2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end, except for those approved by the City Council for carry forward. The legal level of budgetary control is the functional level for the general fund and the fund level for special revenue funds.

The City Council requires the City Manager to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in June. The City Manager is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations.

### **B. Excess of Expenditures Over Appropriations**

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2008, the City incurred expenditures in excess of the amounts appropriated as follows:

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Capital Outlay	\$ 100,000	\$ 520,202	\$420,202
Special Revenue:			
Major streets	1,296,240	1,316,287	20,047
Local streets	713,369	803,400	90,031
Library	719,744	742,710	22,966

### 3. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

#### A. Deposits and Investments

*Summary of Deposit and Investment Balances.* Following is a reconciliation of deposit and investment balances as of June 30, 2008:

<u>Deposits &amp; Investments</u>	<u>Deposits</u>	<u>Investment</u>	<u>Other</u>	<u>Total</u>
<b>Governmental - wide financial statement captions:</b>				
Cash & cash equivalents	\$ 4,767,268	\$ 7,771,330	\$ 3,550	\$ 12,542,148
Investments	250,000	8,950,599	-	9,200,599
<b>Fiduciary Fund Financial statement captions:</b>				
Cash & cash equivalents	-	1,483,267	-	1,483,267
Investments	-	61,975,370	-	61,975,370
<b>Component Unit statement captions:</b>				
Cash & cash equivalents	-	274,647	-	274,647
<b>Total</b>	<u><u>\$ 5,017,268</u></u>	<u><u>\$ 80,455,213</u></u>	<u><u>\$ 3,550</u></u>	<u><u>\$ 85,476,031</u></u>

#### Statutory Authority

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.



# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City's deposits are in accordance with statutory authority.

### **Deposits and Investments**

The City chooses to disclose its investments using the segmented time distribution method. As of June 30, 2008 the City had the following investments:

Type of Investment	Credit Risk - S&P Quality Rating Fair Value (\$000's)								Total
	AAA	AA	A	BBB	BB	B	CCC and Below	NR	
U.S. Government	\$ 4,200	\$ -	\$ -	\$ 452	\$ -	\$ -	\$ -	\$ 2,157	\$ 6,809
Corporate	1,941	1,398	4,018	4,788	449	571	398	-	13,563
Foreign	-	-	338	325	-	-	-	446	1,109
Stocks	-	-	-	-	-	-	-	24,710	24,710
Pooled investments	-	-	-	-	-	-	-	18,245	18,245
Mutual funds	-	-	-	-	-	-	-	12,996	12,996
REIT	-	-	-	-	-	-	-	3,023	3,023
	<u>\$ 6,141</u>	<u>\$ 1,398</u>	<u>\$ 4,356</u>	<u>\$ 5,565</u>	<u>\$ 449</u>	<u>\$ 571</u>	<u>\$ 398</u>	<u>\$ 61,577</u>	<u>\$ 80,455</u>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

Type of Investment	Years to Maturity Fair Value (\$000's)					Total
	Less than 1 Year	1-5	6-10	More than 10 Years	N/A	
U.S. Government	\$ 179	\$ 1,910	\$ 3,054	\$ 1,665	-	\$ 6,808
Corporate	-	8,900	3,157	1,506	-	13,563
Foreign	446	559	105	-	-	1,110
Stocks	-	-	-	-	24,710	24,710
Pooled investments	-	-	-	-	18,245	18,245
Mutual funds	-	-	-	-	12,996	12,996
REIT	-	-	-	-	3,023	3,023
Total	<u>\$ 625</u>	<u>\$ 11,369</u>	<u>\$ 6,316</u>	<u>\$ 3,171</u>	<u>\$ 58,974</u>	<u>\$ 80,455</u>

### **Investment and Deposit Risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investment maturities for the City's investments are included in the investment schedule above.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. In compliance with State law, the City's investments policy limits investments to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy does not have specific limits in excess of state law on investment credit risk. As of June 30, 2008, the City's investments in corporate bonds and corporate asset-backed securities were within these guidelines.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end \$4,501,747 of the City's bank balance of \$5,001,747 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are either uninsured, unregistered and held by a counterparty in the City's name or are uncategorized as to credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

Mutual and cash management funds are registered with the SEC. The Michigan Banking Act regulates these bank investment pools. The fair value of the position in the bank investment pools is the same as the value of the pool shares. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above.

### B. Receivables

Receivables in the governmental activities are approximately 78 percent due from other governments, 16 percent accounts receivables, 2 percent taxes and special assessments and 4 percent accrued interest. Business-type activities receivables are 100 percent due from customers.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unearned</u>	<u>Unavailable</u>	<u>Total</u>
Personal property taxes not yet received (general, sanitation, and debt service funds)	\$ -	\$ 101,957	\$ 101,957
State shared revenue not received within 60 days of fiscal year end	-	645,819	645,819
Unearned fire service revenue	29,163	-	29,163
	<u>\$ 29,163</u>	<u>\$ 747,776</u>	<u>\$ 776,939</u>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

### C. Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 637,878	\$ -	\$ -	\$ 637,878
Construction-in-progress	-	318,608	-	318,608
<b>Total capital assets, not being depreciated</b>	<b>637,878</b>	<b>318,608</b>	<b>-</b>	<b>956,486</b>
Capital assets, being depreciated:				
Buildings and improvements	6,728,254	417,368	-	7,145,622
Equipment	3,780,178	242,158	24,180	3,998,156
Vehicles	4,452,849	753,195	216,391	4,989,653
Infrastructure	38,678,629	790,529	-	39,469,158
<b>Total capital assets being depreciated</b>	<b>53,639,910</b>	<b>2,203,250</b>	<b>240,571</b>	<b>55,602,589</b>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	3,127,503	311,840	-	3,439,343
Equipment	2,663,703	258,879	24,180	2,898,402
Vehicles	3,665,918	351,928	216,391	3,801,455
Infrastructure	24,122,194	2,336,255	-	26,458,449
<b>Total accumulated depreciation</b>	<b>33,579,318</b>	<b>3,258,902</b>	<b>240,571</b>	<b>36,597,649</b>
<b>Total capital assets, being depreciated, net</b>	<b>20,060,592</b>	<b>(1,055,652)</b>	<b>-</b>	<b>19,004,940</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 20,698,470</b>	<b>\$ (737,044)</b>	<b>\$ -</b>	<b>\$ 19,961,426</b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Business-type activities</b>				
Capital assets, not being depreciated -				
Land	\$ 454,903	\$ -	\$ -	\$ 454,903
Construction in progress	3,282,567	2,371,569	-	5,654,136
Total capital assets not being depreciated	3,737,470	2,371,569	-	6,109,039
Capital assets, being depreciated:				
Buildings	1,085,090	-	-	1,085,090
Equipment	1,002,883	3,809	-	1,006,692
Vehicles	394,627	-	266,500	128,127
Infrastructure	44,278,802	490,165	-	44,768,967
Total capital assets being depreciated	46,761,402	493,974	266,500	46,988,876
<b>Less accumulated depreciation for</b>				
Buildings	1,003,964	5,070	-	1,009,034
Equipment	945,169	28,972	-	974,141
Vehicles	354,497	8,387	266,500	96,384
Infrastructure	12,400,866	1,629,531	-	14,030,397
Total accumulated depreciation	14,704,496	1,671,960	266,500	16,109,956
Total capital assets being depreciated, net	32,056,906	(1,177,986)	-	30,878,920
<b>Business-type activities capital assets, net</b>	<b>\$ 35,794,376</b>	<b>\$ 1,193,583</b>	<b>\$ -</b>	<b>\$ 36,987,959</b>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 118,009
Public safety	123,502
Public works	273,938
Highways and streets	2,135,101
Community development	6,385
Recreation and culture	212,599
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	389,368
<b>Total depreciation expense - governmental activities</b>	<b><u>\$3,258,902</u></b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

Business-type activities	
Water and sewer	\$1,599,303
Auto parking	<u>72,655</u>
Total depreciation expense - business-type activities	<b><u>\$1,671,958</u></b>

The City has an active construction project as of June 30, 2008. The City is a participating community in the George W. Kuhn drain project along with thirteen other local municipalities. The total cost of the project is currently estimated at approximately \$135,398,270 with the City's share of total projects costs at \$13,228,411.

As of June 30, 2008 the City's financial activity as it relates to this project is as follows:

<b><u>Project</u></b>	<b><u>Spent-to-Date</u></b>	<b><u>Remaining Commitment</u></b>
George W. Kuhn Drain	\$ 12,913,018	\$ 315,393

The project is being financed through the sale of drain bonds through the Oakland County Drain Commission and draw downs from the State of Michigan revolving fund. Future commitments related to construction in progress cannot readily be determined at this time due to the project management being conducted at Oakland County, Michigan.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### **Discretely presented component units**

Activity for the Downtown Development Authority for the year ended June 20, 2008, was as follows:

	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>
Capital assets, being depreciated				
Equipment	\$ 68,015	\$ -	\$ -	\$ 68,015
Vehicles	37,103	-	-	37,103
Infrastructure	<u>1,397,059</u>	<u>1,338</u>	<u>-</u>	<u>1,398,397</u>
Total capital assets being depreciated	<u>1,502,177</u>	<u>1,338</u>	<u>-</u>	<u>1,503,515</u>
<b>Less accumulated depreciation for</b>				
Equipment	50,349	1,466		51,815
Vehicles	21,342	3,712	-	25,054
Infrastructure	<u>773,564</u>	<u>96,831</u>	<u>-</u>	<u>870,395</u>
Total accumulated depreciation	845,255	102,009	-	947,264
<b>Component unit activity capital assets, net</b>	<u><u>\$ 656,922</u></u>	<u><u>\$ (100,671)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 556,251</u></u>

### **D. Interfund Receivables, Payables and Transfers**

At June 30, 2008, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund. The amount of interfund receivables, payables and transfers are as follows as of June 30, 2008:

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ -	\$ 2,035,180
Capital Projects Fund		
Infrastructure	2,013,858	-
Special Revenue Funds		
Local Streets	13,471	-
SMART Taxi Subsidy	7,851	-
	<u>\$ 2,035,180</u>	<u>\$ 2,035,180</u>

Interfund balances represent routine and temporary cash flow assistance until amounts are transferred from fund investment accounts.

For the year then ended, interfund transfers consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>				<u>Total</u>
	<u>General</u>	<u>Library Renovation</u>	<u>Non Major Governmental</u>	<u>Internal Service Fund</u>	
General Fund	\$ -	\$ -	\$ 1,557,514	\$ -	\$ 1,557,514
Non-Major Governmental Funds	189,491	313,156	450,000	324,625	1,277,272
Auto Parking	80,860	-	-	-	80,860
	<u>\$ 270,351</u>	<u>\$ 313,156</u>	<u>\$ 2,007,514</u>	<u>\$ 324,625</u>	<u>\$ 2,915,646</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### E. Long-Term Debt

*General obligation bonds.* The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities and business type activities. The original amount of general obligation bonds issued in prior years for the items listed below for the primary government were \$43,624,457 to finance the



# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

repair and/or reconstruction of water, sewer and street infrastructure and \$933,152 to finance the City's boiler and HVAC improvements.

During the current fiscal year, the City made debt repayments against its General Obligation Bonds totaling \$2,060,000. New General Obligation debt was issued in the current fiscal year for renovation of the library facilities in the amount of \$4,700,000 and infrastructure bonds in the amount of \$3,000,000.

*George W. Kuhn project bonds and revolving fund obligations* The City is a participating community in the George W. Kuhn drain project. The project is administered by the Oakland County Drain Commission, and financed through the sale of drain bonds, draw downs from the State of Michigan revolving fund, Federal and State of Michigan grants and contributions from Oakland County, Michigan. The City along with thirteen other local community's are obligated for the payment of principal and interest of the outstanding debt. It is currently anticipated that the City's total obligation at the end of construction will be approximately \$13,228,411 or 9.77% of the projects total cost of \$135,398,270. Due to the current construction of the project, the sale of bonds are being incurred on an as needed basis and thus an accurate schedule of principal and interest payments cannot be determined at this time. Accordingly, it is not included in the following schedule of annual debt service requirements.

*State revolving fund.* The City has obtained a \$3,475,000 state revolving fund loan to finance the cost of water mains and sewer lining expenditures incurred during the year. The loan acts like a line-of-credit to the City. Repayment of this loan began in fiscal year 2008.

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
<b>Governmental activities</b>		
2007 Infrastructure bonds	4.0%	\$ 3,000,000
2007 Library renovation bonds	3.0% - 4.0%	4,700,000
2004 refunding bonds	2.0% - 5.0%	11,145,000
2006 refunding bonds	2.5% - 4.0%	9,100,000
Public improvement general obligation bonds	4.3% - 4.4%	<u>654,152</u>
		<b><u>\$ 28,599,152</u></b>
<b>Business-type activities</b>		
George W. Kuhn drain project	2.0% - 5.0%	\$ 10,146,325
State revolving fund	2.125%	<u>5,805,000</u>
		<b><u>\$ 15,951,325</u></b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

Annual debt service requirements to maturity for general obligation bonds are as follows:

	<b><u>Governmental Activities</u></b>	
	<b><u>Principal</u></b>	<b><u>Interest and Premium</u></b>
2009	\$ 2,540,000	\$ 1,292,180
2010	2,910,000	1,134,455
2011	2,955,000	1,012,305
2012	3,240,000	888,105
2013	3,350,000	744,005
2014 – 2018	10,644,152	1,607,486
2019 – 2023	1,465,000	477,302
2024 – 2027	<u>1,495,000</u>	<u>147,700</u>
	<b><u>\$ 28,599,152</u></b>	<b><u>\$ 7,303,538</u></b>

Annual debt service requirements to maturity for the State revolving fund are as follows:

	<b><u>Business-Type Activities</u></b>	
	<b><u>Principal</u></b>	<b><u>Interest and Premium</u></b>
2009	\$ 245,000	\$ 150,818
2010	255,000	118,149
2011	255,000	112,731
2012	260,000	107,312
2013	265,000	101,787
2014 – 2018	1,415,000	421,922
2019 – 2023	1,575,000	264,884
2024 – 2028	<u>1,535,000</u>	<u>90,098</u>
	<b><u>\$ 5,805,000</u></b>	<b><u>\$ 1,367,700</u></b>

### *Advance and Current Refundings*

The City has issued refunding bonds in previous years to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$25,000,000 of refunded debt. As a result, the refunded bonds are considered to be defeased. On June 30, 2008, the City had total defeased debt outstanding of approximately \$23,143,000.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government</b>					
Governmental Activities					
Public Improvement Bonds	\$ 749,152	\$ -	\$ (95,000)	\$ 654,152	\$ 100,000
Library Facilities Bonds	-	4,700,000	-	4,700,000	75,000
Infrastructure Bonds, Series IV	800,000	-	(800,000)	-	-
Refunding Bonds, 2003	12,265,000	-	(1,120,000)	11,145,000	1,115,000
Refunding Bonds, 2005	9,145,000	-	(45,000)	9,100,000	1,050,000
Infrastructure Bonds, Series 2007	-	3,000,000	-	3,000,000	200,000
Total general obligation debt	<u>22,959,152</u>	<u>7,700,000</u>	<u>(2,060,000)</u>	<u>28,599,152</u>	<u>2,540,000</u>
Premium on Refunding Bonds	277,145	14,819	(32,440)	259,524	(32,440)
Discount/Issuance-Refunding Bond	(167,728)	(84,115)	27,983	(223,860)	27,983
Discount/Issuance-Library Bond	-	(144,784)	7,239	(137,545)	7,239
Accrued Compensated Absences	284,450	191,502	(10,233)	465,718	-
	<u>\$ 23,353,019</u>	<u>\$ 7,677,422</u>	<u>\$ (2,067,451)</u>	<u>\$ 28,962,989</u>	<u>\$ 2,542,782</u>
<b>Business-type Activities</b>					
GWK Obligation	\$ 10,499,158	\$ 179,020	\$ (531,853)	\$ 10,146,325	\$ 528,409
State Revolving Fund	3,103,426	2,841,574	(140,000)	5,805,000	245,000
	<u>\$ 13,602,584</u>	<u>\$ 3,020,594</u>	<u>\$ (671,853)</u>	<u>\$ 15,951,325</u>	<u>\$ 773,409</u>
<b>Component unit</b>					
Capital Lease	<u>\$ 302</u>	<u>\$ -</u>	<u>\$ (302)</u>	<u>\$ -</u>	<u>\$ -</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

### F. Segment Information – Enterprise Funds

The Water and Sewer Fund, is an individual fund that accounts entirely for the government's water and wastewater activities. This fund is a segment and is reported as a major fund in the fund financial statements; therefore, segment disclosures herein are not required.

### G. Reserves, Designations and Restrictions of Fund Balance and Net Assets

*Reserves* Reserved fund balances are legal restrictions on fund balance imposed by sources outside the City, which typically involve donor restrictions for specific purposes on City financial resource.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

*Designations* Designated fund balances are restrictions imposed by the City on the use of fund balance for specific purposes.

*Restricted Net Assets* Restricted net assets on the Statement of Net Assets are similar to reserved fund balance in that a portion of net assets are legally restricted for a specific purpose as imposed by sources outside of the City.

The schedule of other reserved and designated fund balances is as follows:

	<b>Other Reserved Fund Balance</b>	<b>Designated Fund Balance</b>
<b>Governmental activities</b>		
Accrued compensated absences	\$ -	\$ 465,718
Police in-service training	11,778	-
Court renovation	-	697,675
Fire equipment	-	82,275
Cable TV equipment	-	100,000
Technology equipment	-	100,000
Cable TV advance	-	34,419
Seniors' memorial	11,263	-
	<b><u>\$ 23,041</u></b>	<b><u>\$1,480,087</u></b>

#### 4. OTHER INFORMATION

##### A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries and illnesses of employees; and natural disasters. The City maintains an Internal Service Fund to account for and finance its risks of loss for workers' compensation claims. Workers' compensation is provided through purchased commercial insurance. For workers' compensation claims, the policy covers the City's claims up to \$350,000 per occurrence. The City is self-insured for the following risks up to the maximum amount per claim as follows: general liability - \$75,000 and property - \$11,000. The City is insured for those automobile claims that consist of employee injuries and City vehicle damage. There have been no significant reductions in insurance coverage from the prior year.

# **CITY OF FERNDALE, MICHIGAN**

## **NOTES TO FINANCIAL STATEMENTS**

---

The City participates in the Michigan Municipal Risk Management Authority (MMRMA), a self-insured, public-entity risk pool organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to Michigan cities, counties, townships and special purpose governments. The City covers the first \$75,000, and the risk pool covers the next \$925,000. Excess commercial insurance is provided through the pool up to an additional \$9,000,000. Should actual losses among participants be greater than anticipated, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, there will be a reduction in the City's future contribution to the pool. Settled claims have not exceeded this commercial coverage in any of the past four years.

### **B. Property Taxes**

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest if paid in full by July 31<sup>st</sup> or if elected by the taxpayer, paid using an eight monthly installment method from July through February. As of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Oakland County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2007 levy, including industrial facilities was \$621,624,760. The City's operating tax rate was 14.5448 mills for the same year with additional millages of 4.5, 1.9601, and 2.1815 levied to fund various types of debt service costs, library, and refuse removal and disposal, respectively.

Property taxes for the DDA (Downtown Development Authority) are derived from tax increment financing agreements with the various applicable taxing authorities. Under these arrangements, the DDA receives the property taxes levied on the increment of current taxable values over the base year values on those properties located within the established tax increment financing City.

Property taxes are recognized in the fiscal year in which they are levied.

### **C. Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by

# CITY OF FERNDAL, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

### **D. Retirement System and Plan**

#### **Ferndale Employees Retirement System**

##### *Plan Description*

The Ferndale Employees Retirement System ("FERS") is a single-employer defined benefit pension plan administered by the City that covers all full-time municipal employees. Effective July 1, 1996, FERS was closed to new hires and existing members were permitted to transfer to the new Defined Contribution Plan. FERS provides retirement, disability, and death benefits to plan members. The requirements of the State Constitution and Chapter XIXA of the City Charter assign the authority to establish and amend benefit provisions of the plan to the Board of Trustees. A separate financial statement of the Plan has not been issued.

##### *Summary of Significant Accounting Policies*

The Ferndale Employees Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

##### *Contributions*

There are no active members of the plan for the purposes of employee contributions. (See the amendment to the Plan below.) The City is not required to make a contribution. Per Chapter XIXA of the City Charter, contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees. Administrative costs of FERS are financed through investment earnings.

The following Plan provisions have been reflected in the June 30, 2006 valuation:

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

- Providing Medicare Part B reimbursement to active employees hired prior to July 1, 1991.
- Providing disability benefits to all active General employees of the City of Ferndale. (Thus active plan member in the valuation for purposes of disability are sixty-two, and for purposes of pension benefits is zero – closed plan.)

Membership of the FERS consisted of the following at June 30, 2006, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	81
Terminated plan members entitled to but not yet receiving benefits	3
Active plan members	<u>71</u>
<b>Total</b>	<b><u>155</u></b>

### Annual Pension Cost

For the year ended June 30, 2008, the City had no annual pension cost or required or actual contributions.

<b>Three-Year Trend Information</b>			
<b><u>Year Ending</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage of APC Contributed</u></b>	<b><u>Net Pension Obligation</u></b>
June 30, 2005	\$ -	100%	\$ -
June 30, 2006	-	100%	-
June 30, 2007	-	100%	-

### **Ferndale Policeman and Fireman Retirement System**

#### Plan Description

The Ferndale Policeman and Fireman Retirement System (FPFRS) is a single-employer defined benefit pension plan administered by Comerica Bank Corporation that covers all full-time municipal police and firemen. Effective July 1, 1996, the FPFRS provides retirement, disability and death benefits to plan members. The requirements of the State Constitution and Chapter XIXB of the City Charter assigns the authority to establish and amend benefit provisions of the plan to the Board of Trustees. A separate financial statement of the Plan has not been issued.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

### Summary of Significant Accounting Policies

The Ferndale Policeman and Fireman Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

### Contributions

Plan members are required to contribute between 1.6% and 5.35% of their annual covered salary. The City was not required to make a contribution for the year ended June 30, 2007, according to the latest valuation received for the year ended June 30, 2006. Per Chapter XIXB of the City Charter, contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees. Administrative costs of FPFERS are financed through investment earnings.

Membership of the FPFERS consisted of the following at June 30, 2006, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	88
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	<u>44</u>
<b>Total</b>	<b><u>133</u></b>

### Annual Pension Cost

For the year ended June 30, 2008, the City's annual pension cost of \$88,709 was equal to the City's required and actual contributions.

<b>Three-Year Trend Information</b>			
<b><u>Year Ended</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage of APC Contributed</u></b>	<b><u>Net Pension Obligation</u></b>
June 30, 2006	\$ -	100%	\$ -
June 30, 2007	85,717	100%	85,717
June 30, 2008	88,709	0%	88,709

The Plans do not issue a separate financial report.



# CITY OF FERNDAL, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

The funded status of the Ferndale Employees Retirement System ("FERS") and the Ferndale Policemen and Firemen Retirement System ("FPFRS") as of June 30, 2006, the most recent actuarial valuation date, is as follows.

<b>Actuarial Valuation June 30, 2006</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability (AAL) Attained Age# (b)</b>	<b>(Overfunded) Unfunded (AAL) (UAAL) (b-a)</b>	<b>Funded Ratio % (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as % of Covered Payroll ((b-a) / c)</b>
FERS	\$ 18,423,039	11,891,917	(6,531,122)	154.9	3,117,728	-
FPFRS	38,544,837	33,722,210	(4,822,627)	114.3	3,073,865	(157)%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

### Statement of Net Assets

	<b><u>Employees' Retirement System Fund</u></b>	<b><u>Policemen and Firemen Retirement System Fund</u></b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 194,429	\$ 605,837
Accrued interest receivable	78,239	169,989
Investments		
Mutual funds	3,829,301	4,400,000
Common stock	6,976,415	17,733,811
Real estate investment trusts (REIT)	1,031,571	1,991,734
Commercial paper	<u>6,707,242</u>	<u>14,538,028</u>
Total investments	<u>18,544,529</u>	<u>38,663,573</u>
Total assets	<u>\$18,817,197</u>	<u>\$39,439,399</u>
<b>NET ASSETS</b>		
Held in trust for pension benefits (equal to total net assets)	<u>\$18,817,197</u>	<u>\$39,439,399</u>

# CITY OF FERNDAL, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### Statement of Changes in Fund Net Assets

	<b><u>Employees' Retirement System Fund</u></b>	<b><u>Policemen and Firemen Retirement System Fund</u></b>
<b>Additions</b>		
Contributions		
Employer contributions	\$ -	\$ 88,709
Plan member contributions	-	148,023
Total contributions	<u>-</u>	<u>236,732</u>
Investment income		
Net depreciation in fair value	(1,404,803)	(3,393,037)
Interest	415,284	800,158
Dividends	392,174	972,098
Total investment loss	(597,345)	(1,620,781)
Less investment expense	(120,699)	(172,544)
Net investment loss	<u>(718,044)</u>	<u>(1,793,325)</u>
<b>Total reductions</b>	<u>(718,044)</u>	<u>(1,556,593)</u>
<b>Deductions</b>		
Benefits	1,127,419	2,248,970
Administrative expenses	<u>2,871</u>	<u>5,241</u>
<b>Total deductions</b>	<u>1,130,290</u>	<u>2,254,211</u>
Net decrease in plan assets	(1,848,334)	(3,810,804)
Net assets held in trust for pension benefits – beginning of year	<u>20,665,531</u>	<u>43,250,203</u>
<b>Net assets held in trust for pension     benefits – end of year</b>	<b><u>\$18,817,197</u></b>	<b><u>\$39,439,399</u></b>

### **Defined Contribution Pension Plan**

The City of Ferndale Defined Contribution Pension Plan is held in trust and covers approximately 110 employees of the City. The plan is available to employees upon their first day of employment and benefits are fully vested upon the fifth year of service. The third party administrator for this plan is International City Manager's

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

Association Retirement Corporation (“ICMARC”), which qualifies under the Internal Revenue Code Section 401(a). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Contributions to the plan are recognized when due and payable. Plan provisions and contribution rates are established and may be amended for union employees by contract and for non-union employees by resolution of the City Council. Unvested benefits forfeited by employees who leave employment early are used to reduce City contributions. Assets of the plan are valued at \$17,030,671, of which \$395,732 were loans to members.

The City’s payroll for employees covered by the Plan for the year ended June 30, 2008, was approximately \$6,130,000, and the City’s total payroll was approximately \$9,591,525. The required contributions were \$265,631 by employees and \$597,774 by the City, representing 4.3% and 9.8% of covered payroll, respectively.

The City’s contribution rate structure is as follows:

	<u>Police</u>	<u>City and Admin hire prior to 7/16/96</u>	<u>City hire subsequent to 7/16/96</u>	<u>Admin hire subsequent to 7/16/96</u>	<u>City Manager</u>
City Contribution	9%	6%	5%	5%	6%
Employee Contribution	0%	0%	0%	0%	0%
or					
City Contribution	12%	9%	5%	7%	10%
Employee Contribution	3%	3%	3%	3%	3%

### **43<sup>rd</sup> City Court Profit Sharing Pension Plan**

The 43<sup>rd</sup> City Court Profit Sharing Pension Plan is held in trust and covers 15 employees (12 current and 3 former) of the City Court. The plan is available to employees upon their first day of employment and benefits are fully vested upon the seventh year of service. The third party administrator for this plan is Watkins, Ross & Company. In a profit sharing pension plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The profit sharing pension cost to the 43<sup>rd</sup> City Court for the fiscal year ending June 30, 2008 was \$86,189. The defined contribution pension cost to the employees was \$-0-. Contributions to the plan are recognized when due and payable. Plan provisions and contribution rates are established and may be amended for union employees by contract and for non-union employees by resolution of the City Council. Unvested benefits forfeited by employees who leave employment early are used to reduce City Court contributions. Assets of the plan are valued at \$1,577,594.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

### **E. Postemployment Benefits – Retiree Health Care Trust Fund**

#### **Plan Description**

The City provides certain healthcare benefits for retired employees in accordance with the bargaining group agreements and other requirements. Substantially all of the City's full-time employees may become eligible for those benefits if they reach normal retirement age while working for the City. The City's contribution for healthcare benefits is accounted for in the Retiree Health Care Trust Fund. The employers' contribution of \$679,018 was attributable to healthcare benefits. This contribution represented 7.8% of total covered payroll of approximately \$8,751,000 during the current year ended June 30, 2008. During the current year, healthcare benefits paid for 169 retirees totaled \$1,781,000, which was paid out of the Employees Retirement System. Future payments will be made by the Employees Retirement System until the reserves that have accumulated there are exhausted.

This is a single-employer defined benefit plan administered by the City. The Plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

#### **Funding Policy**

The Plan is a non-contributory defined benefit plan that covers substantially all employees of the City as defined above. The funding progress of the Plan as of June 30, 2002, the most recent valuation date, is as follows:

Actuarial value of assets	\$ 1,476,128
Actuarial value of liabilities ("AAL")	\$ 25,301,332
Unfunded AAL ("UAAL")	\$ 23,825,204
Funded ratio	5.8%
Annual covered payroll	\$ 6,988,000

#### **Actuarial Methods and Assumptions**

In the June 30, 2002 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions include an assumed rate of 4.5%. An annual healthcare cost trend of 4.5% was used from fiscal year 2003. The UAAL is being amortized as a level percent of payroll on an open basis. The remaining amortization period as of June 30, 2008 was 30 years.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

The Plan's unfunded accrued liability was determined as part of an actuarial valuation of the Plan as of June 30, 2002. Significant actuarial assumptions used in determining the Plan's unfunded accrued liability included (a) a rate of return on the investment (net of investment expense) of 7.5% per year compounded annually, (b) projected salary increases of 4.5% per year, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.4% per year, depending on age, attributable to seniority/merit, (d) future life expectancy, based on age and sex, (e) rate of retirement, (f) rate of separation from active membership, (g) marital status, and (h) health care cost increases of 5.50% per year. The Plan assets consist of cash equivalents in short-term investments.

<b>Actuarial Valuation Date June 30,</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Attained Age# (b)</b>	<b>(Overfunded) Unfunded (AAL) (UAAL) (b-a)</b>	<b>Funded Ratio % (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as % of Covered Payroll ((b-a) / c)</b>
2002	\$ 1,476,128	\$ 25,301,332	\$ 23,825,204	5.8%	\$ 6,988,000	340.9%

The schedules of funding progress, presented as required supplementary information ("RSI") following the notes to the financial statements, present multi-year information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

### Statement of Net Assets

	<b>Retiree Health Care Trust Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 683,001
Accrued interest receivable	8,108
Investments – mutual funds	<u>4,767,268</u>
Total assets	<u>5,458,377</u>
<b>NET ASSETS</b>	
Held in trust for postemployment healthcare benefits (equal to total net assets)	<u>\$ 5,458,377</u>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

---

### Statement of Changes in Fund Net Assets

	<b>Retiree Health Care Trust Fund</b>
<b>Additions</b>	
Contributions	
Employer contributions	\$ 679,018
Total contributions	679,018
Investment income – interest	184,846
<b>Total additions</b>	<b>863,864</b>
<b>Deductions</b>	
Administrative expenses	2,500
Net increase in plan assets	861,364
Net assets held in trust for postemployment benefits – beginning of year	4,597,013
<b>Net assets held in trust for postemployment     benefits – end of year</b>	<b><u>\$ 5,458,377</u></b>

### F. Joint Venture

The City is a member of the Southeastern Oakland County Resource Recovery Authority (the “Authority”), which consists of 14 municipalities in Oakland County and provides refuse collection and disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2008 (the most recent data available), the Authority reported a reduction in net assets in the amount of \$74,529 resulting in ending net assets in the amount of \$5,819,732. During the year ended June 30, 2008, the City expended \$1,265,973 in payments made to the Authority. Complete financial statements for the Southeastern Oakland Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

\* \* \* \* \*

***REQUIRED SUPPLEMENTARY  
INFORMATION***

# CITY OF FERNDAL, MICHIGAN

## Required Supplementary Information (Unaudited)

### Defined Benefit Pension Trust - Ferndale Employees Retirement System

<b>Schedule of Funding Progress</b>						
<b>Actuarial Valuation Date June 30</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability (AAL) Attained Age# (b)</b>	<b>(Overfunded) Unfunded (AAL) (UAAL) (b-a)</b>	<b>Funded Ratio % (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as % of Covered Payroll ((b-a) / c)</b>
2001	\$ 19,416,086	\$ 11,772,304	\$ (7,643,782)	164.9%	\$ 135,998	-%
2002	18,944,647	10,817,132	(8,127,515)	175.1	96,460	-
2003	18,273,195	10,451,898	(7,821,297)	174.8	46,329	-
2004	18,202,445	12,582,349	(5,620,096)	144.7	2,750,539	-
2005	18,066,625	12,828,481	(5,238,144)	140.8	2,767,899	-
2006	18,423,039	11,891,917	(6,531,122)	154.9	3,117,728	-

<b>Schedule of Employer Contributions</b>				
<b>Fiscal Year Ended June 30</b>	<b>Contribution Rates as Percents of Valuation Payroll</b>	<b>Computed Dollar Contribution Based on Projected Payroll</b>	<b>Actual Annual Contributions</b>	<b>Percent of Required Contributions</b>
2002	\$ -	\$ -	\$ -	100%
2003	-	-	-	100
2004	-	-	-	100
2005	-	-	-	100
2006	-	-	-	100
2007	-	-	-	100



# CITY OF FERNDAL, MICHIGAN

## Required Supplementary Information (Unaudited)

### Defined Benefit Pension Trust - Ferndale Policeman and Fireman Retirement System

<b>Schedule of Funding Progress</b>						
<b>Actuarial Valuation Date June 30</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Attained Age# (b)</b>	<b>(Overfunded) Unfunded (AAL) (UAAL) (b-a)</b>	<b>Funded Ratio % (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as % of Covered Payroll ((b-a) / c)</b>
2001	\$ 39,246,828	\$ 32,164,933	\$ (7,081,895)	122.0%	\$ 2,620,382	(270)%
2002	38,371,312	31,242,171	(7,129,141)	122.8	2,544,785	(280)
2003	36,737,847	31,315,210	(5,422,637)	117.3	2,616,156	(207)
2004	36,862,319	32,860,203	(4,002,116)	112.2	2,727,170	(147)
2005	37,456,032	34,311,824	(3,144,208)	109.2	2,880,620	(109)
2006	38,544,837	33,722,210	(4,822,627)	114.3	3,073,865	(157)

<b>Schedule of Employer Contributions</b>				
<b>Fiscal Year Ended June 30</b>	<b>Contribution Rates as Percents of Valuation Payroll</b>	<b>Computed Dollar Contribution Based on Projected Payroll</b>	<b>Actual Annual Contributions</b>	<b>Percent of Required Contributions</b>
2002	- %	\$ -	\$ -	100%
2003	-	-	-	100
2004	-	-	-	100
2005	-	-	-	100
2006	-	-	-	100
2007	2.82	85,717	-	0

# CITY OF FERNDAL, MICHIGAN

## Required Supplementary Information (Unaudited)

---

### Other Postemployment Benefits

<b>Actuarial Valuation Date June 30,</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Attained Age# (b)</b>	<b>(Overfunded) Unfunded (AAL) (UAAL) (b-a)</b>	<b>Funded Ratio % (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as % of Covered Payroll ((b-a) / c)</b>
2002	\$ 1,476,128	\$ 25,301,332	\$ 23,825,204	5.8%	\$ 6,988,000	340.9%

# CITY OF FERNDALE, MICHIGAN

## Required Supplementary Information (Unaudited)

---

	<u>FERS</u>	<u>FPERS</u>
Valuation Date	June 30, 2006	June 30, 2006
Actuarial Cost Method	Aggregate Level Dollar	Entry-Age
Amortization	Open	Level percent open
Remaining Amortization Period	10 years	10 years
Assets Valuation Method: Smoothed Market	4 years	4 years
Actuarial Assumptions: Investment Rate of Return	7.50%	7.50%
Additional Projected Salary: Increase	4.5-8.9%	4.5-7.5%
Includes inflation at	4.5%	4.5%
Cost of Living Adjustment	None	None

***COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES***

**CITY OF FERNDALE, MICHIGAN**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**

**June 30, 2008**

	Special Revenue								Capital	Total Nonmajor Governmental Funds
									Projects	
	Community									
	Local	Major		Drug	Block		Public	SMART		
	Streets	Streets	Sanitation	Forfeiture	Grant	Library	Improvement	Taxi Subsidy	Infrastructure	
<b>Assets</b>										
Cash and cash equivalents	\$ -	\$ 237,238	\$ 794,000	\$ 177,301	\$ 67,283	\$ 343,298	\$ 1,546,972	\$ -	\$ 654,001	\$ 3,820,093
Receivables										
Taxes-delinquent	-	-	20,085	-	-	6,697	-	-	-	26,782
Less: allowance for doubtful accounts	-	-	(15,448)	-	-	(4,656)	-	-	-	(20,104)
Due from other funds	-	-	-	-	-	-	-	-	2,013,858	2,013,858
Due from other governments	109,927	152,569	-	-	6,944	38,968	-	71,643	-	380,051
<b>Total assets</b>	<b>\$ 109,927</b>	<b>\$ 389,807</b>	<b>\$ 798,637</b>	<b>\$ 177,301</b>	<b>\$ 74,227</b>	<b>\$ 384,307</b>	<b>\$ 1,546,972</b>	<b>\$ 71,643</b>	<b>\$ 2,667,859</b>	<b>\$ 6,220,680</b>
<b>Liabilities</b>										
Accounts payable	\$ 7,458	\$ 186,886	\$ 125,343	\$ -	\$ -	\$ 10,121	\$ 18,580	\$ -	\$ 100,736	\$ 449,124
Accrued liabilities	8,971	8,464	13,972	-	-	12,018	-	2,725	-	46,150
Due to other funds	13,471	-	-	-	-	-	-	7,851	-	21,322
Deferred revenue	-	-	4,637	-	-	2,041	-	-	-	6,678
<b>Total liabilities</b>	<b>29,900</b>	<b>195,350</b>	<b>143,952</b>	<b>-</b>	<b>-</b>	<b>24,180</b>	<b>18,580</b>	<b>10,576</b>	<b>100,736</b>	<b>523,274</b>
<b>Fund balance</b>										
Unreserved, undesignated	80,027	194,457	654,685	177,301	74,227	360,127	1,528,392	61,067	2,567,123	5,697,406
<b>Total liabilities and fund balance</b>	<b>\$ 109,927</b>	<b>\$ 389,807</b>	<b>\$ 798,637</b>	<b>\$ 177,301</b>	<b>\$ 74,227</b>	<b>\$ 384,307</b>	<b>\$ 1,546,972</b>	<b>\$ 71,643</b>	<b>\$ 2,667,859</b>	<b>\$ 6,220,680</b>

**CITY OF FERNDALE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**

**Year Ended June 30, 2008**

	Special Revenue								Capital Projects	Total Nonmajor Governmental Funds
	Community Development							SMART Taxi Subsidy	Infrastructure	
	Local Streets	Major Streets	Sanitation	Drug Forfeiture	Block Grant	Library	Public Improvement			
<b>Revenues</b>										
Property taxes	\$ -	\$ -	\$ 1,354,642	\$ -	\$ -	\$ 1,217,650	\$ -	\$ -	\$ -	\$ 2,572,292
Intergovernmental										
Federal	-	-	-	97,238	88,659	-	-	-	-	185,897
State	338,070	1,080,185	-	-	-	14,431	-	71,643	-	1,504,329
Local	-	-	-	2,800	-	-	-	-	-	2,800
Charges for services	-	-	1,030,925	-	-	-	-	4,880	-	1,035,805
Fines and forfeitures	-	-	-	20,192	-	44,078	-	-	-	64,270
Investment earnings	-	23,301	14,375	7,101	1,728	3,301	8,266	1,289	42,810	102,171
Other	63,619	-	6,918	-	-	5,620	10,000	-	-	86,157
<b>Total revenues</b>	<b>401,689</b>	<b>1,103,486</b>	<b>2,406,860</b>	<b>127,331</b>	<b>90,387</b>	<b>1,285,080</b>	<b>18,266</b>	<b>77,812</b>	<b>42,810</b>	<b>5,553,721</b>
<b>Expenditures</b>										
Current										
General government	-	-	-	-	-	-	-	76,486	-	76,486
Public safety	-	-	-	24,298	-	-	-	-	-	24,298
Public works	-	-	2,243,883	-	-	-	-	-	-	2,243,883
Highways and streets	803,400	1,316,287	-	-	-	-	-	-	-	2,119,687
Community and economic development	-	-	-	-	19,700	-	63,641	-	-	83,341
Unreserved, undesignated	-	-	-	-	-	677,005	-	-	-	677,005
Debt service										
Principal	-	-	-	-	-	-	95,000	-	-	95,000
Interest and fees	-	-	-	-	-	-	33,712	-	-	33,712
Capital outlay	-	-	-	-	-	65,705	188,575	-	165,881	420,161
<b>Total expenditures</b>	<b>803,400</b>	<b>1,316,287</b>	<b>2,243,883</b>	<b>24,298</b>	<b>19,700</b>	<b>742,710</b>	<b>380,928</b>	<b>76,486</b>	<b>165,881</b>	<b>5,773,573</b>
<b>Revenues over (under) expenditures</b>	<b>(401,711)</b>	<b>(212,801)</b>	<b>162,977</b>	<b>103,033</b>	<b>70,687</b>	<b>542,370</b>	<b>(362,662)</b>	<b>1,326</b>	<b>(123,071)</b>	<b>(219,852)</b>
<b>Other financing sources (uses)</b>										
Transfers in	450,000	-	-	-	-	-	1,557,514	-	-	2,007,514
Transfers out	-	(450,000)	(25,000)	(95,000)	(69,491)	(313,156)	-	-	(324,625)	(1,277,272)
Proceeds from bond issuance	-	-	-	-	-	-	-	-	3,000,000	3,000,000
Premium/(Discount) from bond issuance	-	-	-	-	-	-	-	-	14,819	14,819
Proceeds from the sale of capital assets	-	-	-	-	-	845	-	-	-	845
<b>Total other financing sources (uses)</b>	<b>450,000</b>	<b>(450,000)</b>	<b>(25,000)</b>	<b>(95,000)</b>	<b>(69,491)</b>	<b>(312,311)</b>	<b>1,557,514</b>	<b>-</b>	<b>2,690,194</b>	<b>3,745,906</b>
<b>Net change in fund balances</b>	<b>48,289</b>	<b>(662,801)</b>	<b>137,977</b>	<b>8,033</b>	<b>1,196</b>	<b>230,059</b>	<b>1,194,852</b>	<b>1,326</b>	<b>2,567,123</b>	<b>3,526,054</b>
Fund balances, beginning of year	31,738	857,258	516,708	169,268	73,031	130,068	333,540	59,741	-	2,171,352
<b>Fund balances, end of year</b>	<b>\$ 80,027</b>	<b>\$ 194,457</b>	<b>\$ 654,685</b>	<b>\$ 177,301</b>	<b>\$ 74,227</b>	<b>\$ 360,127</b>	<b>\$ 1,528,392</b>	<b>\$ 61,067</b>	<b>\$ 2,567,123</b>	<b>\$ 5,697,406</b>

# CITY OF FERNDALE, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

### LOCAL STREETS

Year Ended June 30, 2008

	<b>Budgeted Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
State grants and reimbursements	\$ 358,925	\$ 358,925	\$ 338,070	\$ (20,855)
Other revenue	64,100	64,100	63,619	(481)
<b>Total revenues</b>	<b>423,025</b>	<b>423,025</b>	<b>401,689</b>	<b>(21,336)</b>
<b>Expenditures</b>				
Construction	181,800	-	126,312	126,312
Routine maintenance	497,358	630,369	500,294	(130,075)
Winter maintenance	73,000	73,000	135,943	62,943
Traffic service	10,000	10,000	40,851	30,851
<b>Total expenditures</b>	<b>762,158</b>	<b>713,369</b>	<b>803,400</b>	<b>90,031</b>
<b>Revenues under expenditures</b>	<b>(339,133)</b>	<b>(290,344)</b>	<b>(401,711)</b>	<b>(111,367)</b>
<b>Other financing sources</b>				
Transfers in	450,000	450,000	450,000	-
<b>Net change in fund balances</b>	<b>110,867</b>	<b>159,656</b>	<b>48,289</b>	<b>(111,367)</b>
Fund balance, beginning of year	31,738	31,738	31,738	-
<b>Fund balance, end of year</b>	<b>\$ 142,605</b>	<b>\$ 191,394</b>	<b>\$ 80,027</b>	<b>\$ (111,367)</b>

# CITY OF FERNDALE, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

### MAJOR STREETS

Year Ended June 30, 2008

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
<b>Revenues</b>				
State shared revenue	\$ 1,092,553	\$ 1,092,553	\$ 1,080,185	\$ (12,368)
Investment earnings	30,000	30,000	23,301	(6,699)
<b>Total revenues</b>	<b>1,122,553</b>	<b>1,122,553</b>	<b>1,103,486</b>	<b>(19,067)</b>
<b>Expenditures</b>				
Construction	196,200	230,430	515,233	284,803
Routine maintenance	837,719	970,944	563,568	(407,376)
Winter maintenance	80,866	80,866	145,961	65,095
Traffic service	14,000	14,000	91,525	77,525
<b>Total expenditures</b>	<b>1,128,785</b>	<b>1,296,240</b>	<b>1,316,287</b>	<b>20,047</b>
<b>Revenues under expenditures</b>	<b>(6,232)</b>	<b>(173,687)</b>	<b>(212,801)</b>	<b>(39,114)</b>
<b>Unreserved, undesignated</b>				
Transfers out	(450,000)	(450,000)	(450,000)	-
<b>Net change in fund balances</b>	<b>(456,232)</b>	<b>(623,687)</b>	<b>(662,801)</b>	<b>(39,114)</b>
Fund balance, beginning of year	857,258	857,258	857,258	-
<b>Fund balance, end of year</b>	<b>\$ 401,026</b>	<b>\$ 233,571</b>	<b>\$ 194,457</b>	<b>\$ (39,114)</b>



# CITY OF FERNDALE, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

### SANITATION FUND

Year Ended June 30, 2008

	<b>Budgeted Amounts</b>			<b>Actual Over (Under)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Revenues</b>				
Property taxes	\$ 1,331,687	\$ 1,356,000	\$ 1,354,642	\$ (1,358)
Charges for services	1,025,129	1,037,532	1,030,925	(6,607)
Investment earnings	16,000	16,000	14,375	(1,625)
Other	2,500	2,500	6,918	4,418
<b>Total revenues</b>	<b>2,375,316</b>	<b>2,412,032</b>	<b>2,406,860</b>	<b>(5,172)</b>
<b>Expenditures</b>				
Operating	2,006,820	2,006,820	1,914,838	(91,982)
Personal	308,365	307,464	308,221	757
Capital outlay	27,000	27,000	20,824	(6,176)
<b>Total expenditures</b>	<b>2,342,185</b>	<b>2,341,284</b>	<b>2,243,883</b>	<b>(97,401)</b>
<b>Revenues over expenditures</b>	<b>33,131</b>	<b>70,748</b>	<b>162,977</b>	<b>92,229</b>
<b>Other financing sources (uses)</b>				
Transfers out	(22,000)	(25,000)	(25,000)	-
<b>Net change in fund balances</b>	<b>11,131</b>	<b>45,748</b>	<b>137,977</b>	<b>92,229</b>
Fund balance, beginning of year	516,708	516,708	516,708	-
<b>Fund balance, end of year</b>	<b>\$ 527,839</b>	<b>\$ 562,456</b>	<b>\$ 654,685</b>	<b>\$ 92,229</b>

# CITY OF FERNDALE, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

### DRUG FORFEITURE

Year Ended June 30, 2008

	<b>Budgeted Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Intergovernmental				
Federal	\$ -	\$ -	\$ 97,238	\$ 97,238
Local	-	-	2,800	2,800
Fines and forfeitures	95,000	95,000	20,192	(74,808)
Investment earnings	2,000	5,100	7,101	2,001
<b>Total revenues</b>	<b>97,000</b>	<b>100,100</b>	<b>127,331</b>	<b>27,231</b>
<b>Expenditures</b>				
Operating expenditures	18,500	36,500	24,298	(12,202)
<b>Revenues over expenditures</b>	<b>78,500</b>	<b>63,600</b>	<b>103,033</b>	<b>39,433</b>
<b>Other financing uses</b>				
Transfers out	(95,000)	(95,000)	(95,000)	-
<b>Net change in fund balances</b>	<b>(16,500)</b>	<b>(31,400)</b>	<b>8,033</b>	<b>39,433</b>
Fund balance, beginning of year	169,268	169,268	169,268	-
<b>Fund balance, end of year</b>	<b>\$ 152,768</b>	<b>\$ 137,868</b>	<b>\$ 177,301</b>	<b>\$ 39,433</b>

# CITY OF FERNDALE, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

### COMMUNITY DEVELOPMENT BLOCK GRANT

Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			<u>Actual</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
<b>Revenues</b>				
Intergovernmental				
Federal	\$ 87,065	\$ 92,485	\$ 88,659	\$ (3,826)
Investment earnings	2,100	2,100	1,728	(372)
<b>Total revenues</b>	<b>89,165</b>	<b>94,585</b>	<b>90,387</b>	<b>(4,198)</b>
<b>Expenditures</b>				
Operating expenditures	23,750	25,094	19,700	(5,394)
<b>Revenues over expenditures</b>	<b>65,415</b>	<b>69,491</b>	<b>70,687</b>	<b>1,196</b>
<b>Other financing sources (uses)</b>				
Transfers out	(65,415)	(69,491)	(69,491)	-
<b>Net change in fund balances</b>	<b>-</b>	<b>-</b>	<b>1,196</b>	<b>1,196</b>
Fund balance, beginning of year	73,031	73,031	73,031	-
<b>Fund balance, end of year</b>	<b>\$ 73,031</b>	<b>\$ 73,031</b>	<b>\$ 74,227</b>	<b>\$ 1,196</b>

# CITY OF FERNDALE, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

### LIBRARY

Year Ended June 30, 2008

	<b>Budgeted Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Property taxes	\$ 586,089	\$ 1,218,000	\$ 1,217,650	\$ (350)
Intergovernmental				
State	15,000	15,000	14,431	(569)
Fines and forfeitures	38,400	38,400	44,078	5,678
Investment earnings	4,500	4,500	3,301	(1,199)
Other	10,000	10,000	5,620	(4,380)
<b>Total revenues</b>	<b>653,989</b>	<b>1,285,900</b>	<b>1,285,080</b>	<b>(820)</b>
<b>Expenditures</b>				
Personal services	373,444	418,644	366,866	(51,778)
Operating expenditures	229,300	259,100	310,139	51,039
Capital outlay	36,000	42,000	65,705	23,705
<b>Total expenditures</b>	<b>638,744</b>	<b>719,744</b>	<b>742,710</b>	<b>22,966</b>
<b>Revenues over (under) expenditures</b>	<b>15,245</b>	<b>566,156</b>	<b>542,370</b>	<b>(23,786)</b>
<b>Other financing sources (uses)</b>				
Transfers out	-	(313,156)	(313,156)	-
Proceeds from sale of capital assets	500	500	845	345
<b>Total other financing sources (uses)</b>	<b>500</b>	<b>(312,656)</b>	<b>(312,311)</b>	<b>345</b>
<b>Net change in fund balances</b>	<b>15,745</b>	<b>253,500</b>	<b>230,059</b>	<b>(23,441)</b>
Fund balance, beginning of year	130,068	130,068	130,068	-
<b>Fund balance, end of year</b>	<b>\$ 145,813</b>	<b>\$ 383,568</b>	<b>\$ 360,127</b>	<b>\$ (23,441)</b>

# CITY OF FERNDALE, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

### PUBLIC IMPROVEMENT

Year Ended June 30, 2008

	<b>Budgeted Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Investment earnings	\$ 13,000	\$ 10,000	\$ 8,266	\$ (1,734)
Other revenue	10,000	1,000,162	10,000	(990,162)
<b>Total revenues</b>	<b>23,000</b>	<b>1,010,162</b>	<b>18,266</b>	<b>(991,896)</b>
<b>Expenditures</b>				
Operating expenditures	95,392	120,892	63,641	(57,251)
Principal	95,000	95,000	95,000	-
Interest	33,712	33,712	33,712	-
Capital outlay	-	1,057,840	188,575	(869,265)
<b>Total expenditures</b>	<b>224,104</b>	<b>1,307,444</b>	<b>380,928</b>	<b>(926,516)</b>
<b>Revenues under expenditures</b>	<b>(201,104)</b>	<b>(297,282)</b>	<b>(362,662)</b>	<b>(65,380)</b>
<b>Other financing sources</b>				
Transfers in	190,000	640,000	1,557,514	917,514
<b>Net change in fund balances</b>	<b>(11,104)</b>	<b>342,718</b>	<b>1,194,852</b>	<b>852,134</b>
Fund balance, beginning of year	333,540	333,540	333,540	-
<b>Fund balance, end of year</b>	<b>\$ 322,436</b>	<b>\$ 676,258</b>	<b>\$ 1,528,392</b>	<b>\$ 852,134</b>

# CITY OF FERNDALE, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

### SMART TAXI SUBSIDY

Year Ended June 30, 2008

	<b>Budgeted Amounts</b>			<b>Actual Over (Under)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Revenues</b>				
Intergovernmental				
State	\$ 69,495	\$ 69,495	\$ 71,643	\$ 2,148
Charges for services	7,310	7,310	4,880	(2,430)
Investment earnings	1,000	1,000	1,289	289
<b>Total revenues</b>	<b>77,805</b>	<b>77,805</b>	<b>77,812</b>	<b>7</b>
<b>Expenditures</b>				
Personal services	57,309	57,309	56,805	(504)
Operating expenditures	19,500	19,500	19,681	181
<b>Total expenditures</b>	<b>76,809</b>	<b>76,809</b>	<b>76,486</b>	<b>(323)</b>
<b>Net change in fund balances</b>	<b>996</b>	<b>996</b>	<b>1,326</b>	<b>330</b>
Fund balance, beginning of year	59,741	59,741	59,741	-
<b>Fund balance, end of year</b>	<b>\$ 60,737</b>	<b>\$ 60,737</b>	<b>\$ 61,067</b>	<b>\$ 330</b>

# CITY OF FERNDALE, MICHIGAN

## COMBINING STATEMENT OF NET ASSETS INTERNAL SERVICE FUNDS

June 30, 2008

	<b>Vehicle and Equipment Maintenance</b>	<b>Worker's Compensation</b>	<b>Total</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 1,262,302	\$ 488,649	\$ 1,750,951
Accounts receivable	24,928	-	24,928
Inventory	167,996	-	167,996
Prepaid expenses	-	20,000	20,000
<b>Total current assets</b>	<b>1,455,226</b>	<b>508,649</b>	<b>1,963,875</b>
Noncurrent assets			
Capital assets	5,500,130	-	5,500,130
Less accumulated depreciation	(3,936,924)	-	(3,936,924)
<b>Total noncurrent assets</b>	<b>1,563,206</b>	<b>-</b>	<b>1,563,206</b>
<b>Total assets</b>	<b>3,018,432</b>	<b>508,649</b>	<b>3,527,081</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	68,309	85,792	154,101
Accrued liabilities	5,382	-	5,382
<b>Total current liabilities</b>	<b>73,691</b>	<b>85,792</b>	<b>159,483</b>
<b>Net assets</b>			
Investment in capital assets	1,563,206	-	1,563,206
Unrestricted	1,381,535	422,857	1,804,392
<b>Total net assets</b>	<b>\$ 2,944,741</b>	<b>\$ 422,857</b>	<b>\$ 3,367,598</b>

# CITY OF FERNDALE, MICHIGAN

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS INTERNAL SERVICE FUNDS

Year Ended June 30, 2008

	Vehicle and Equipment Maintenance	Worker's Compensation	Total
<b>Operating revenues</b>			
Charges for services	\$ 1,336,148	\$ 119,130	\$ 1,455,278
Miscellaneous fees	26,662	-	26,662
<b>Total operating revenues</b>	<b>1,362,810</b>	<b>119,130</b>	<b>1,481,940</b>
<b>Operating expenses</b>			
Personal services	188,103	-	188,103
General and administrative	697,128	41,011	738,139
Depreciation	389,368	-	389,368
Benefit and medical payments	-	113,544	113,544
<b>Total operating expenses</b>	<b>1,274,599</b>	<b>154,555</b>	<b>1,429,154</b>
<b>Operating income (loss)</b>	<b>88,211</b>	<b>(35,425)</b>	<b>52,786</b>
<b>Non-operating revenues</b>			
Investment earnings	38,607	17,520	56,127
Gain on sale of capital assets	137,893	-	137,893
<b>Total non-operating revenues</b>	<b>176,500</b>	<b>17,520</b>	<b>194,020</b>
<b>Income (loss) before transfers</b>	<b>264,711</b>	<b>(17,905)</b>	<b>246,806</b>
Transfers in	324,625	-	324,625
<b>Change in net assets</b>	<b>589,336</b>	<b>(17,905)</b>	<b>571,431</b>
Net assets, beginning of year	2,355,405	440,762	2,796,167
<b>Net assets, end of year</b>	<b>\$ 2,944,741</b>	<b>\$ 422,857</b>	<b>\$ 3,367,598</b>



**CITY OF FERNDALE, MICHIGAN**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**

**Year Ended June 30, 2008**

	<b>Vehicle and Equipment Maintenance</b>	<b>Worker's Compensation</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Cash received from interfund services	\$ 1,366,491	\$ 119,130	\$ 1,485,621
Cash payments to employees	(187,539)	-	(187,539)
Cash payments to suppliers for goods and services	(669,482)	(113,305)	(782,787)
<b>Net cash provided by operating activities</b>	<b>509,470</b>	<b>5,825</b>	<b>515,295</b>
<b>Cash flows provided by investing activities</b>			
Investment income	38,606	17,520	56,126
<b>Cash flows from capital and related financing activities</b>			
Purchase of capital assets	(766,402)	-	(766,402)
Proceeds from sale of capital assets	137,894	-	137,894
<b>Net cash used in capital and related financing activities</b>	<b>(628,508)</b>	<b>-</b>	<b>(628,508)</b>
<b>Cash flows provided by non-capital financing activities</b>			
Transfers	324,625	-	324,625
<b>Net increase in cash and cash equivalents</b>	<b>244,193</b>	<b>23,345</b>	<b>267,538</b>
Cash and cash equivalents, beginning of year	1,018,109	465,304	1,483,413
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,262,302</b>	<b>\$ 488,649</b>	<b>\$ 1,750,951</b>

**Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities**

<b>Cash flows from operating activities</b>			
Operating income (loss)	\$ 88,211	\$ (35,425)	\$ 52,786
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	389,368	-	389,368
Changes in assets and liabilities			
Accounts receivable	3,681	-	3,681
Inventories	7,710	-	7,710
Accounts payable	19,936	41,250	61,186
Accrued liabilities	564	-	564
<b>Net cash provided by operating activities</b>	<b>\$ 509,470</b>	<b>\$ 5,825</b>	<b>\$ 515,295</b>

# CITY OF FERNDALE, MICHIGAN

## COMBINING STATEMENT OF NET ASSETS PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

June 30, 2008

	<b>Employees Retirement System Fund</b>	<b>Policemen and Firemen Retirement System Fund</b>	<b>Post- Retirement Healthcare Fund</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 194,429	\$ 605,837	\$ 683,001	\$ 1,483,267
Accrued interest receivable	78,239	169,989	8,108	256,336
Investments				
Mutual funds	3,829,301	4,400,000	4,767,268	12,996,569
Common stock	6,976,415	17,733,811	-	24,710,226
Real estate investment trusts (REIT)	1,031,571	1,991,734	-	3,023,305
Commercial paper	6,707,242	14,538,028	-	21,245,270
Total investments	18,544,529	38,663,573	4,767,268	61,975,370
<b>Total assets</b>	<b>18,817,197</b>	<b>39,439,399</b>	<b>5,458,377</b>	<b>63,714,973</b>
<b>Held in trust for pension benefits and other purposes</b>	<b>\$ 18,817,197</b>	<b>\$ 39,439,399</b>	<b>\$ 5,458,377</b>	<b>\$ 63,714,973</b>

# CITY OF FERNDALE, MICHIGAN

## COMBINING STATEMENT OF CHANGES IN NET ASSETS PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

Year Ended June 30, 2008

	Employees Retirement System Fund	Policemen and Firemen Retirement System Fund	Post- Retirement Healthcare Fund	Total
<b>Additions</b>				
<b>Contributions</b>				
Employer contributions	\$ -	\$ 88,709	\$ 679,018	\$ 767,727
Plan member contributions	-	148,023	-	148,023
<b>Total contributions</b>	<b>-</b>	<b>236,732</b>	<b>679,018</b>	<b>915,750</b>
<b>Investment income (loss)</b>				
Net depreciation in fair value	(1,404,803)	(3,393,037)	-	(4,797,840)
Interest	415,284	800,158	184,846	1,400,288
Dividends	392,174	972,098	-	1,364,272
<b>Total investment income (loss)</b>	<b>(597,345)</b>	<b>(1,620,781)</b>	<b>184,846</b>	<b>(2,033,280)</b>
Less investment expense	(120,699)	(172,544)	-	(293,243)
<b>Net investment income (loss)</b>	<b>(718,044)</b>	<b>(1,793,325)</b>	<b>184,846</b>	<b>(2,326,523)</b>
<b>Total additions (reductions)</b>	<b>(718,044)</b>	<b>(1,556,593)</b>	<b>863,864</b>	<b>(1,410,773)</b>
<b>Deductions</b>				
Benefits	1,127,419	2,248,970	-	3,376,389
Administrative expenses	2,871	5,241	2,500	10,612
<b>Total deductions</b>	<b>1,130,290</b>	<b>2,254,211</b>	<b>2,500</b>	<b>3,387,001</b>
<b>Net increase (decrease) in plan net assets</b>	<b>(1,848,334)</b>	<b>(3,810,804)</b>	<b>861,364</b>	<b>(4,797,774)</b>
Net assets held in trust for pension benefits - beginning of year	20,665,531	43,250,203	4,597,013	68,512,747
<b>Net assets held in trust for pension     benefits - end of year</b>	<b>\$ 18,817,197</b>	<b>\$ 39,439,399</b>	<b>\$ 5,458,377</b>	<b>\$ 63,714,973</b>

# CITY OF FERNDALE, MICHIGAN

## COMBINING BALANCE SHEET AGENCY FUNDS

June 30, 2008

---

	<b>43rd District Court</b>	<b>Other</b>	<b>Total</b>
Cash and cash equivalents	\$ 226,372	\$ 991	\$ 227,363
Accounts receivable	10,615	-	10,615
<b>Total assets</b>	<b>\$ 236,987</b>	<b>\$ 991</b>	<b>\$ 237,978</b>
Accounts payable	\$ 3,799	\$ -	\$ 3,799
Other liabilities	233,188	991	234,179
<b>Total liabilities</b>	<b>\$ 236,987</b>	<b>\$ 991</b>	<b>\$ 237,978</b>

**CITY OF FERNDALE, MICHIGAN**  
**DOWNTOWN DEVELOPMENT AUTHORITY**  
**STATEMENT OF NET ASSETS AND**  
**GOVERNMENTAL FUND BALANCE SHEET**

**June 30, 2008**

	<b>Governmental Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>Assets</b>			
Cash	\$ 23,881	\$ -	\$ 23,881
Taxes receivable	49,034	-	49,034
Less allowance for uncollectibles	(43,286)	-	(43,286)
Due from primary government	-	4,646	4,646
Capital assets			
Equipment	-	68,015	68,015
Vehicles	-	37,103	37,103
Infrastructure	-	1,398,397	1,398,397
Less: accumulated depreciation	-	(947,264)	(947,264)
<b>Total assets</b>	<b>\$ 29,629</b>	<b>560,897</b>	<b>590,526</b>
<b>Liabilities</b>			
Accounts payable	\$ 11,633	-	11,633
Accrued liabilities	2,702	-	2,702
Deferred revenue	5,749	(5,749)	-
<b>Total liabilities</b>	<b>20,084</b>	<b>(5,749)</b>	<b>14,335</b>
<b>Fund balance/net assets</b>			
Undesignated	9,545	(9,545)	-
<b>Total liabilities and fund balance</b>	<b>\$ 29,629</b>		
<b>Net assets</b>			
Invested in capital assets, net of related debt		\$ 556,251	\$ 556,251
Unrestricted		19,940	19,940
<b>Total net assets</b>		<b>\$ 576,191</b>	<b>\$ 576,191</b>

**CITY OF FERNDALE, MICHIGAN**  
**DOWNTOWN DEVELOPMENT AUTHORITY**  
**RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET**  
**TO STATEMENT OF NET ASSETS**

**June 30, 2008**

---

Fund balance - Downtown Development Authority	\$ 9,545
---	----------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add capital assets:

Infrastructure	1,398,397
Equipment	68,015
Vehicles	37,103
Deduct: accumulated depreciation	(947,264)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues	5,749
------------------------	-------

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included under governmental activities in the primary governments statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	<u>4,646</u>
---	--------------

<b>Net assets of component unit</b>	<b><u><u>\$ 576,191</u></u></b>
-------------------------------------	---------------------------------

# CITY OF FERNDALE, MICHIGAN

## DOWNTOWN DEVELOPMENT AUTHORITY STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended June 30, 2008

	Governmental Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Property taxes	\$ 445,555	\$ (3,453)	\$ 442,102
Intergovernmental: Contributions	40,764	-	40,764
<b>Total revenues</b>	<b>486,319</b>	<b>(3,453)</b>	<b>482,866</b>
<b>Expenditures/expenses</b>			
Personal services	126,027	-	126,027
Operating services	340,053	576	340,629
Capital outlay	1,338	(1,338)	-
Depreciation expense	-	102,007	102,007
Debt service			
Principal	-	(303)	(303)
Interest expense	3	(3)	-
<b>Total expenditures/expenses</b>	<b>467,421</b>	<b>100,939</b>	<b>568,360</b>
<b>Revenues over (under) expenditures/ change in net assets</b>	<b>18,898</b>	<b>(104,392)</b>	<b>(85,494)</b>
<b>Other financing sources</b>			
Proceeds/gain from sale of capital assets	1,852	-	1,852
<b>Revenues over (under) expenditures and other financing sources (uses)/change in net assets</b>	<b>20,750</b>	<b>(104,392)</b>	<b>(83,642)</b>
Beginning fund balance/net assets	(11,205)	671,038	659,833
<b>Ending fund balance/net assets</b>	<b>\$ 9,545</b>	<b>\$ 566,646</b>	<b>\$ 576,191</b>

**CITY OF FERNDALE, MICHIGAN**  
**DOWNTOWN DEVELOPMENT AUTHORITY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGE IN FUND BALANCE**  
**TO THE STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2008**

---

Net change in fund balances - component unit	\$ 20,750
--	-----------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: purchases of capital assets	1,338
Deduct: depreciation expense	(102,007)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Adjustment to reflect consolidation of the internal service fund activities related to the downtown development authority.	(576)
--	-------

Repayment of capital leases is an expenditure in the fund financial statements, but the repayment reduces liabilities in the statement of net assets.

Add: capital lease payments on long-term liabilities	303
Add: decrease in accrued interest	3

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: net difference in deferred revenues	(3,453)
---	---------

<b>Change in net assets of governmental activities</b>	<b><u><u>\$ (83,642)</u></u></b>
--	----------------------------------



# CITY OF FERNDALE, MICHIGAN

## BROWNFIELD REDEVELOPMENT AUTHORITY STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

June 30, 2008

	<b>Governmental Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>Assets</b>			
Cash	\$ 250,766	\$ -	\$ 250,766
Accounts receivable	4,032	-	4,032
Due from primary government			
<b>Total assets</b>	<b><u>\$ 254,798</u></b>	-	254,798
<b>Liabilities</b>			
Accounts payable	\$ 219,098	-	219,098
<b>Fund balance/net assets</b>			
Undesignated	35,700	(35,700)	-
<b>Total liabilities and fund balance</b>	<b><u>\$ 254,798</u></b>		
<b>Net assets</b>			
Unrestricted		<b><u>\$ 35,700</u></b>	<b><u>\$ 35,700</u></b>

**CITY OF FERNDALE, MICHIGAN**

**BROWNFIELD REDEVELOPMENT AUTHORITY  
STATEMENT OF ACTIVITIES AND  
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE**

**Year Ended June 30, 2008**

	<b>Budgeted Amounts</b>		<b>Governmental Fund</b>	<b>Actual Over (Under)</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
	<b>Original</b>	<b>Final</b>		<b>Final Budget</b>		
<b>Revenues</b>						
Property taxes	\$ 188,478	\$ 209,000	\$ 209,803	\$ 803	\$ -	\$ 209,803
Charges for services	5,000	5,000	2,515	(2,485)	-	2,515
Investment earnings	1,000	1,000	3,418	2,418	-	3,418
<b>Total revenues</b>	<b>194,478</b>	<b>215,000</b>	<b>215,736</b>	<b>736</b>	<b>-</b>	<b>215,736</b>
<b>Expenditures/expenses</b>						
Operating expenditures/expenses	191,578	212,100	200,539	(11,561)	-	200,539
<b>Net change in fund balances</b>	<b>2,900</b>	<b>2,900</b>	<b>15,197</b>	<b>12,297</b>	<b>-</b>	<b>15,197</b>
Beginning fund balance/net assets	20,503	20,503	20,503	-	-	20,503
<b>Ending fund balance/net assets</b>	<b>\$ 23,403</b>	<b>\$ 23,403</b>	<b>\$ 35,700</b>	<b>\$ 12,297</b>	<b>\$ -</b>	<b>\$ 35,700</b>

## ***SINGLE AUDIT***

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

February 10, 2009

To the Honorable Mayor and City Council  
City of Ferndale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Ferndale, Michigan* as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the *City of Ferndale, Michigan's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiency described above to be a material weakness.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *City of Ferndale, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance as noted in Section II of this report but no other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated February 10, 2009.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor, City Council, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson". The signature is written in a cursive, flowing style.

Troy, Michigan

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

February 10, 2009

To the Honorable Mayor and City Council  
City of Ferndale, Michigan

**Compliance**

We have audited the compliance of the ***City of Ferndale, Michigan*** (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Ferndale's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Ferndale, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2008-2.

## **Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

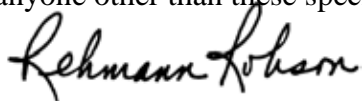
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control over compliance that might be significant deficiencies or material weaknesses as defined below. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-2 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor, City Council, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Troy, Michigan

# City of Ferndale, Michigan

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Justice:</b>		
Drug Enforcement Administration		
<i>Organized Crime Drug Enforcement Task Forces (OCDETF)</i>	16.738	\$ 19,782
<i>Asset Forfeiture and Money Laundering Section</i>	16.580	96,663
 Bureau of Justice Assistance (BJA)		
<i>Bulletproof Vest Partnership (BVP) program 2004</i>	16.607	575
Total U.S. Department of Justice		<u>117,020</u>
 <b>U.S. Department of Housing and Urban Development:</b>		
<i>EDI Special Projects Program (EDSI)</i>	14.251	396,000
 Pass through Oakland County, Michigan		
<i>Community Development Block Grant</i>	14.218	88,659
Total U.S. Department of Housing and Urban Development		<u>484,659</u>
 <b>U.S. Department of Homeland Security:</b>		
<i>State Homeland Security Grant</i>	83.554	1,182
 <b>Environmental Protection Agency, Ofc. Of Ground &amp; Drinking Water</b>		
<i>Safe Drinking Water State Revolving Fund</i>	66.468	<u>1,245,889</u>
 <b>Total Expenditures of Federal Awards</b>		<b><u>\$ 1,848,750</u></b>



# **CITY OF FERNDALE, MICHIGAN**

## **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2008**

---

### **1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Ferndale, Michigan (the "City") and is presented on the same basis of accounting as the basic financial statements.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

\* \* \* \* \*

**CITY OF FERNDALE, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

---

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?        yes   X   no

Significant deficiency (ies) identified  
not considered to be material weaknesses?   X   yes        none reported

Noncompliance material to financial statements  
noted?        yes   X   no

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified?        yes   X   no

Significant deficiency (ies) identified  
not considered to be material weaknesses?   X   yes        none reported

Type of auditors' report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)?   X   yes        no

## CITY OF FERNDALE, MICHIGAN

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED JUNE 30, 2008

---

#### SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Save Drinking Water State Revolving Funds
14.251	EDI Special Projects Program (EDSI)

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   yes        no

#### SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2008-1 Valuation for Defined Pension Trusts

**Criteria:** All governments are required under Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, paragraph 35, to have a valuation performed for their pension plans at least biennially.

**Condition:** The City was not able to provide us with the actuarial valuations for the year ended June 30, 2007 for disclosure in the financial statements.

**Cause:** This condition was caused by the untimely remittance of pension information to the independent actuaries that led to the City not obtaining the valuation in time for the year end audit.

**Effect:** As a result of this condition, the City lacks internal controls over the submission of information to the independent actuaries which could in turn lead to insufficient disclosures in the financial statements with respect to the funding obligation of the City. This condition could also lead to a misstatement with respect to the calculated employer contributions to be remitted to the Plans.

## **CITY OF FERNDALE, MICHIGAN**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2008**

---

**Recommendation:** We recommend that procedures be put in place to avoid the untimely submission of the data to the actuary for the valuation to be performed.

**View of  
Responsible  
Officials:**

Management agrees with this response and has prepared a corrective action plan to address this finding.

### **SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### **Finding 2008-2 Reporting – EDI Special Projects Program**

**Criteria:** In accordance with Article IV, *Progress Reports*, of the FY 2006 EDI-Special Project No. B-06-SP-MI-0471 Grant Agreement, the City of Ferndale was to remit progress reports every six months to the Grant Officer after the effective date of the Grant Agreement.

**Condition:** During the audit for the year ended June 30, 2008, we noted that the semi-annual progress reports had not been remitted by the City of Ferndale.

**Cause:** Internal controls were not in place at the City of Ferndale to remit the progress reports when there were staffing changes in the Recreation Department.

**Effect:** The progress reports were not filed timely in accordance with the Grant Agreement.

**Recommendation:** We recommend that the City of Ferndale establish an alternate employee to complete progress reports in the event that the original employee is not available to complete them.

**View of  
Responsible  
Officials:**

Management agrees with this response and has prepared a corrective action plan to address this finding.

### **SECTION IV - PRIOR YEAR FINDINGS**

No matters were reported

\* \* \* \* \*

City of Ferndale  
300 East Nine Mile Road  
Ferndale, MI 48220-1797

**Management Response to 2008 Audit Findings**

Finding 2008-1 Valuation for Defined Pension Trusts

**Criteria:** All governments are required under Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, paragraph 35, to have a valuation performed for their pension plans at least biennially.

**Condition:** The City was not able to provide us with the actuarial valuations for the year ended June 30, 2007 for disclosure in the financial statements.

**Cause:** This condition was caused by the untimely remittance of pension information to the independent actuaries that led to the City not obtaining the valuation in time for the year end audit.

**Effect:** As a result of this condition, the City lacks internal controls over the submission of information to the independent actuaries which could in turn lead to insufficient disclosures in the financial statements with respect to the funding obligation of the City. This condition could also lead to a misstatement with respect to the calculated employer contributions to be remitted to the Plans.

**View of  
Responsible  
Officials:**

Contact person responsible for corrective action - City Clerk  
Cherilynn Tallman – [response is attached](#).

Management Summary by Assistant City Manager/Finance Director  
Jaynmarie C. Hubanks – [As stated in the City Clerk's response, as a new Clerk with responsibility for preparing an annual actuarial valuation, Ms. Tallman did not understand the ramifications of untimely submission of actuarial information to the City's actuary. Now that she has been so advised per the finding, I expect that this matter will not arise again in an audit finding.](#)

[Completion date - This situation was resolved immediately upon receipt of the finding, and 2008 actuarial information will be sent to the actuary within the next couple of weeks.](#)

Finding 2008-2 Reporting – EDI Special Projects Program

**Criteria:** In accordance with Article IV, *Progress Reports*, of the FY 2006 EDI-Special Project No. B-06-SP-MI-0471 Grant Agreement, the City of Ferndale was to remit progress reports every six months to the Grant Officer after the effective date of the Grant Agreement.

**Condition:** During the audit for the year ended June 30, 2008, we noted that the semi-annual progress reports had not been remitted by the City of Ferndale.

**Cause:** Internal controls were not in place at the City of Ferndale to remit the progress reports when there were staffing changes in the Recreation Department.

**Effect:** The progress reports were not filed timely in accordance with the Grant Agreement.

**Recommendation:** We recommend that the City of Ferndale establish an alternate employee to complete progress reports in the event that the original employee is not available to complete them.

**View of  
Responsible  
Officials:**

Contact person responsible for corrective action - Recreation Director Julie Hall – [response is attached](#).

Management Summary by Assistant City Manager/Finance Director Jaynmarie C. Hubanks – [As stated in the Recreation Director's response, Ms. Hall replaced a 30+year Director who retired after applying for and receiving the EDI grant. As a new Director with responsibility for supervising Recreation grant expenditures and reporting, Ms. Hall was not aware that she was delinquent in report submissions based on her many conversations with grant officials in which she was not so advised. Now that she has been so advised per the finding, Ms. Hall has indicated that supervisory employees will be cross-trained to file grant reports if needed in the future.](#)

[Completion date - This situation was resolved immediately upon receipt of the finding by having a succession plan for reporting on grants.](#)

[Respectfully submitted,](#)

[Jaynmarie C. Hubanks](#)  
[Assistant City Manager](#)  
[City of Ferndale](#)  
[248-546-2377](#)  
[jchubanks@ferndale-mi.com](mailto:jchubanks@ferndale-mi.com)

## SECTION II – FINANCIAL STATEMENT FINDINGS

### Finding 2008-1 Valuation for Defined Pension Trusts

- Criteria:** All governments are required under Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, paragraph 35, to have a valuation performed for their pension plans at least biennially.
- Condition:** The City was not able to provide us with the actuarial valuations for the year ended June 30, 2007 for disclosure in the financial statements.
- Cause:** This condition was caused by the untimely remittance of pension information to the independent actuaries that led to the City not obtaining the valuation in time for the year end audit.
- Effect:** As a result of this condition, the City lacks internal controls over the submission of information to the independent actuaries which could in turn lead to insufficient disclosures in the financial statements with respect to the funding obligation of the City. This condition could also lead to a misstatement with respect to the calculated employer contributions to be remitted to the Plans.

**View of  
Responsible  
Officials:**

As City Clerk I take full responsibility for the untimely remittance of pension information to the independent actuary. Being new to the position and never having had responsibility for this type of financial and personnel information, I did not comprehend the ramifications of failing to deliver the information on deadline. Copies of previous forms as completed by my predecessor could not be found. All requested information was readily available from City sources. Having retained electronic copies of the information compiled for FYE2007, I am prepared to deliver the information for the actuarial valuations for the year ended June 30, 2008 within a week of receiving the request forms from the independent auditor. As the City Clerk's office has no day-to-day jurisdiction over personnel and financial information, my suggestion for future years would be to transfer responsibility for the actuarial reporting to the Finance Department, when and if additional personnel are available.



To: Jaynmarie Hubanks, Assistant City Manager  
CC: Robert J. Bruner, City Manager  
From: Julie L. Hall, Recreation Director  
Date: February 9, 2009  
Re: Finding 2008-2 Reporting – EDI Special Projects Program

In response to the audit finding, I am accountable as the Recreation Director. With respect to the activity between 7/1/07-6/30/08, I have outlined the timeline and the corrective items that are in place:

1. I was hired on August 30, 2007.
2. I made initial contact with the Federal Grants Division on Sept. 7, 2007.
3. I was informed of a number of missing items by our Grants Technician, but this lack of reporting was not one of the items I was asked to complete.
4. I spoke with our Grant Technician on a regular basis and shared email without being notified of the missing documents as stated in the audit finding.
5. I completed all paperwork requested by our Grants Technician and subsequently we received reimbursement of our grant funds.
6. I spent roughly 14 months complying with our Grant Technician's requests. This technician approved our reimbursement, so I must have complied in another way that met with our technician's approval.
7. Last week, I received notification regarding a final report that is due, Form 269A. This form is due by February 28, 2009. According to the letter this semi-annual report is due by the end of the 7th month. See attached.
8. In the future, the most senior Recreation Supervisor would be assigned reporting responsibility in the absence of the Recreation Director.

I will provide additional documentation regarding the items I completed, if necessary. We received our reimbursement for funds. Again, I spent a significant amount of time on this project, jumped through a number of hoops and I was never notified of this short-coming with reporting. For future grants, I will review requirements more closely.



**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE  
UNDER SAS NO. 114**

February 10, 2009

To the Honorable Mayor and the City Council  
City of Ferndale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Ferndale, Michigan* (the "City") for the year ended June 30, 2008, and have issued our report thereon dated February 10, 2009. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated September 18, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs

for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you during our discussion about planning matters on September 23, 2008. The planned scope of the audit was also communicated to those charged with governance through the engagement letter dated September 18, 2008.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 2, 2009.

### *Management Consultations with Other Independent Accountants*

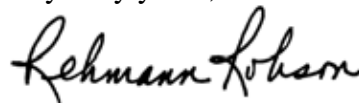
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the ***City of Ferndale, Michigan*** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is written over a horizontal line.

# CITY OF FERNDALE

## Comments and Recommendations

For the Year Ended June 30, 2008

---

In planning and performing our audit of the financial statements of the *City of Ferndale, Michigan* as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the City's Single Audit report.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we considered to be material weaknesses.

### **Other Matters**

1. At the end of the day when the cashiers are done balancing, the receiving tellers file the balancing reports away, however, the credit card numbers had been written on the forms and the credit card numbers are not stored in a secure location. We recommend that the City find alternative methods for taking credit card information such as running the credit card through at the time of payment so that the credit card number does not need to be written down. Also, if someone is paying by credit card via telephone, the credit card number should be shredded and not filed away.
2. A manual check request from the Recreation Director for postage did not include signature of Assistant City Manager for approval of manual check. This particular instance was where the Recreation Director needed the postage for a mailing and the Assistant City Manager was unavailable to approve the check request. We recommend the City have a backup in place to sign off on manual checks when the Assistant City Manager is unavailable.

# **CITY OF FERNDALE**

## **Comments and Recommendations**

**For the Year Ended June 30, 2008**

---

This communication is intended solely for the information and use of management, the Mayor and City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

\* \* \* \* \*